SDV – 19

M.Com. (Semester – II) Examination, April 2012
CO 204 : SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

Duration : 2 Hours Total Marks : 50

Instructions : *1)* ***All*** *questions are* ***compulsory****.*
2) Figures to the ***right*** *side indicate the marks.*

1. Answer the following : (5×2=10)

   a) What are different types of Risks ?

   b) What is Short Selling ?

   c) What is Efficient Frontier ?

   d) Futures Vs Forwards

   e) Security Market Line Vs Capital Market Line.

2. A) How is fundamental analysis useful to a prospective investor ? 10

   OR

   B) Define the efficient market hypothesis. Distinguish among three forms of market efficiency.

3. A) What is Portfolio Selection ? Critically examine Markowitz Model. 10

   OR

   B) What is financial derivative ? Explain different types of derivatives.

P.T.O.

4. A) A financial analyst is analyzing two investment alternatives of A and B. The estimated rates of return and their chances of occurrence for the next year are as follows : 10

Probability	Rates of Returns A (%)	Rates of Returns B (%)
0.20	22	5
0.60	14	15
0.20	-4	25

a) Determine the expected return and standard deviation of investment A and Investment B.

b) If the financial analyst wishes to invest 50% of funds in Investment A and the remaining 50% in Investment B, What would be the return and risk of portfolio ?

OR

B) The face value of a 10 year, 10 percent bond (with 10 percent coupon rate) is Rs. 1,000. The interest is payable annually. Assuming 12 percent required rate of return of investors, compute the value of the bond.

(Note: P.V.I.F. Annuity for 10 years at 12 percent is 5.6502 and P.V.I.F. for 10 years at 12 percent is 0.3220).

5\. A) The Infosys and TCS stocks has the following probability distribution of returns for next year : **10**

State of the Economy	Probability	Infosys (%)	TCS (%)
Boom	.10	16	22
Recession	20	-7	-4
Normal	.40	12	11
Recovery	.10	11	16
Slow Growth	.20	14	20

You are required to calculate :

a) Expected Return of both stocks

b) What is the covariance of returns.

OR

B) The Bushel Company Ltd. currently pays Rs. 3 per share as annual dividend. Assuming 10% required rate of return on shares, compute the value of the shares under each of the following dividend growth rate assumptions :

a) Annual rate of growth, Zero percent indefinitely

b) Annual constant growth, 5 percent to infinity.