**Code No: MB1635/R16**

**Time: 3 Hours**                                                                                    **Max. Marks: 60**

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*Answer Any **FIVE** Questions*
*All Questions Carry Equal Marks*
*Question No. 8 is Compulsory*

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1.  a   What do you understand by investment? Explain various investment avenues   6M
        available to investors.
    b   "Stock Exchanges are act as barometers of the health of the economy."Explain.   6M

2.  a   What is unsystematic risk? Explain the different types of unsystematic risk.   6M
    b   A stock costing Rs 125 pays no dividends.  The possible prices that the stock might   6M
        sell for at the end of the year with the respective probabilities as follows:

| Price(Rs) | Probability |
|-----------|-------------|
| 115       | 0.1         |
| 120       | 0.1         |
| 125       | 0.2         |
| 130       | 0.3         |
| 135       | 0.2         |
| 140       | 0.1         |

   1.Calculate the expected return
   2. Calculate the standard deviation of returns.

3.  a   Explain the concept of present value and time value of money and explain how these   6M
        could influence investment decisions.
    b   Assume a Rs 1000 per value bond with 8.5 percent coupon rate and a maturity   6M
        period of 5 years.  Determine the duration of the bond, if the current market interest
        rate is 10 percent.

4.  a   Elucidate the concept of DOW theory.   6M
    b   Compare and contrast efficient market hypothesis with fundamental and technical   6M
        analyses.

5.  a   Explain the difference between Markowitz model and Sharpe single index model.   6M
    b   Calculate the portfolio variance and standard deviation for a portfolio having the   6M
        following characteristics.

| Securities | Return(percent) | Std deviation | Proportion of investment |
|------------|-----------------|---------------|--------------------------|
| P          | 30              | 12            | 0.2                      |
| Q          | 15              | 8             | 0.3                      |
| R          | 35              | 16            | 0.5                      |
| Correlation coefficients: P and Q=0.8; P and R=0.2; Q and R=0.5 ||||

|'|'''|'||'||'''|||| www.manaresults.co.in

6.  a  Explain the concept of efficient frontier in the context of portfolio selection.                     6M
    b  Describe the valuation of stocks using capital asset pricing model.                                   6M

7.  a  What is portfolio evaluation? Explain its significance in the process of portfolio                    6M
       management.
    b  Explain the need for portfolio revision. Differentiate between active revision                        6M
       strategy and passive revision strategy.

8.     CASE STUDY                                                                                           12M
       An investor owns a portfolio of four securities with the following characteristics:

| Security | Beta | Random error(std dev%) | Proportion |
|----------|------|------------------------|------------|
| 1 | 0.79 | 12 | 0.25 |
| 2 | 1.85 | 8 | 0.30 |
| 3 | 1.05 | 17 | 0.15 |
| 4 | 0.82 | 20 | 0.30 |

   i.   Calculate the portfolio risk, assuming the standard deviation of returns on
        the market index to be 16 percent.
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