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18MBAFM302

Third Semester MBA Degree Examination, July/August 2021 Investment Management

Time: 3 hrs.

Max. Marks: 100

Note: Answer any FIVE full questions.

- 1 a. Distinguish between Investment and Speculation. (03 Marks)
 b. The current dividend on an equity share of Deetha Ltd is Rs.2.00. Deetha Ltd is expected to enjoy on above normal growth rate of 20% for 6 years. Thereafter the growth rate will stabilize at 10%. Equity investor requires a return of 15%. What is the intrinsic value of equity share? (07 Marks)
 c. Describe the process of investment. (10 Marks)
- 2 a. What are the different types of bonds? (03 Marks)
 b. Explain the methods of raising capital from primary market through equity. (07 Marks)
 c. Manoj products currently pays a dividend of Rs.2/share and this dividend is expected to grow 15% for 3 yrs, then at 12% for the next 3 yrs and at 5% forever thereafter. What is the value of the equity share if the required rate is 9%? (10 Marks)

- 3 a. Write a note on Sensex. (03 Marks)
 b. What is risk? Discuss the different types of risk. (07 Marks)
 c. The following three portfolio particulars are given below:

| Portfolio | Average Annual Return | σ | Correlation Coefficient |
|-----------|-----------------------|----|-------------------------|
| A | 18 | 27 | 0.8 |
| B | 14 | 18 | 0.6 |
| C | 15 | 08 | 0.9 |
| Market | 13 | 12 | - |

If the risk-free rate of return is 9%. Rank these portfolio using:

(i) Sharpe method (ii) Treynor's method (iii) Jensen's method

Interpret the results.

(10 Marks)

- 4 a. Define EIC approach in fundamental analysis. (03 Marks)
 b. Find the duration of a 6% coupon bond with a face value of Rs.1000 making annual interest payments, if it has 5 years until maturity. The bond is redeemable at 5% premium at maturity. The market interest rate is currently 8%. (07 Marks)
 c. Identify the significant economic and political developments during the recent past and discuss its implications on investment decision. (10 Marks)

- 5 a. What is Arbitrage Pricing Theory? (03 Marks)
 b. Write a brief note on 'Daw Theory'. (07 Marks)
 c. The Manasu investment company manages a portfolio consisting of 4 stocks with the following market values and betas:

| Stock | Market Value (Rs.) | Beta |
|----------------|--------------------|------|
| Asian Paints | 2,00,000 | 1.16 |
| Bajaj Finance | 1,00,000 | 1.20 |
| Hero Motorcop | 1,50,000 | 0.8 |
| Indus Ind Vand | 50,000 | 0.5 |

If the risk free rate of interest is 9% and the market return is 15%. What is the portfolios expected return as per CAPM approach? (10 Marks)



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- 6 a. What do you mean by Behavioural Finance? (03 Marks)
b. Explain Markowitz portfolio selection model. (07 Marks)
c. The stocks M and N have yielded the following returns for the past 2 years:

| Year | Returns | |
|------|---------|----|
| | M | N |
| 2017 | 12 | 14 |
| 2018 | 18 | 12 |

What is the portfolio return and risk made up of 60% of M and 40% of N? (10 Marks)

- 7 a. What do you mean by dematerialization? (03 Marks)
b. What is meant by mutual funds? Explain its advantages and different schemes available to the investors. (07 Marks)
c. The annual rates of returns of Naveen Ltd. and the index rate of return are given below. Determine the β coefficient.

| | | | | | |
|------------|------|----|----|----|----|
| Naveen Ltd | (8) | 15 | 12 | 13 | 18 |
| Index | (10) | 18 | 14 | 16 | 22 |

(10 Marks)

- 8 The stock of Shanthi company performs well relative to other stocks during recessionary period. The stock of Kranthi company does well during growth periods. Both the stock are currently selling for Rs.50/sh. The rupee return (dividend plus price change) of the stocks for the next year would be as follows:

| | Economic Condition | | | |
|-------------------------|--------------------|------------|------------|-----------|
| | High Growth | Low Growth | Stagnation | Recession |
| Probability | 0.3 | 0.3 | 0.2 | 0.2 |
| Return of Shanthi Stock | 55 | 50 | 60 | 70 |
| Return of Kranthi Stock | 75 | 65 | 50 | 40 |

Calculate the expected return and standard deviation of:

- (i) Rs.1000 invested in the equity stock of Shanthi company.
(ii) Rs.1000 invested in the equity of Kranthi company.
(iii) Rs.700 invested in the equity stock of Shanthi and Rs.300 in the equity stock of Kranthi. (20 Marks)

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