



MB 19 A

Third Year M.B.A. Degree Examination, July 2010
Elective – Group : A : MANAGERIAL FINANCE – III
Course – XIX A : Portfolio Management and Security Analysis

Time : 3 Hours

Max. Marks : 75

*Note : Simple calculators are **allowed**.*

SECTION – A

1. Answer **any five** questions. **Each** question carries **12** marks. **(5×2=10)**
- a) What is Sensex ? What it indicates ?
 - b) What is Book building ?
 - c) What is security market line ?
 - d) Define financial assets.
 - e) Distinguish between diversifiable and non-diversifiable risks.
 - f) Define futures contract.
 - g) What is hedging ?

SECTION – B

- Answer **any two** questions. **Each** question carries **10** marks. **(2×10=20)**
- 2. Define Investment. How does it differ from speculation and gambling ?
 - 3. Discuss the Mean-Variance Hypothesis.
 - 4. Explain the Capital Asset Pricing Model. What are its assumptions ?
 - 5. What do you understand by Insider trading ? What steps SEBI has taken to curb insider trading ?

P.T.O.



SECTION – C

Answer question No. **10 (compulsory)** and **any two** of the following. **Each** question carries **15** marks. **(3×15=45)**

6. Following data are available about stock x and y.
 Expected Return 0.20 and 0.30
 Expected standard deviation 0.04 and 0.05
 Covariance of returns (x, y) 0.20
 Is there any advantage of holding and combining x and y ?
7. Vamsi is considering the purchase of a bond currently selling at Rs. 878.50. The bond has four years to maturity, face value of Rs. 1,000 and 8% coupon rate. The next annual interest payment is due after one year from today. The required rate of return is 10%.
 i) Calculate the intrinsic value (present value) of the bond. Should Vamsi buy the bond ?
 ii) Calculate the yield to maturing of the bond.
8. An Aggressive Mutual Fund promises an expected rate of return of 18% with a standard deviation of 22%. On the other hand, a conservative mutual fund promises an expected rate of return of 16% and fluctuations of 13%.
 i) In which of the funds would you like to invest ?
 ii) Would you like to invest in both the funds ?
 iii) If you can borrow money from your provident fund at an opportunity cost of 15%, in which fund would you invest your money ? Discuss the benefits.
9. Discuss the benefits of portfolio diversification. Illustrate your answer with examples.
10. A newly set up company has projected its dividend amount for Rs. 10. Operational Years from this year onwards. The estimates are as follows :

Year	1	2	3	4	5	6	7	8	9	10
Dividend (Rs.) :	2.50	2.60	3.00	3.40	4.00	4.25	4.75	5.50	6.00	6.50

What is the intrinsic value of its share if discount rate is 12% ?
