APRIL 2021

66401/KDA4G/KDF4G

Time : Three hours

Maximum : 75 marks

PART A — ($10 \times 1 = 10$ marks)

Answer any TEN questions.

1. Define investments.
2. What is sweat equity?
3. Give the meaning of variance.
4. What is TVM?
5. Define Fair market value.
6. What is P/E ratio?
7. Define covariance.
8. Outline the efficient portfolio.
9. What is an efficient market?
10. List out the economic process.
11. What is a cumulative share?
12. What is real asset?

PART B — ($5 \times 5 = 25$ marks)

Answer any FIVE questions.

13. Explain different types of bonds available in India.

14. What are the criticisms of variance as a measure of risk?

15. A finance company advertises that it will pay a lumpsum of Rs.44,650 at the end of five years to investors who deposit annually Rs.6,000 for 5 years. What is the interest rate implicit in this offer?

16. What are the fundamental principles of valuation?

17. Differentiate between traditional and modern approaches to portfolio management.

18. Distinguish the three levels of market efficiency.

19. The following table shows the stock return and probability of Maruti and Tata Motors.

	Stock Return (%)	
Probability	Maruti	Tata Motors
0.5	7.5	8
0.4	6.64	5
0.1	0	–7.7

Which stock has more risk? Also find out which gives the higher return.

PART C — ($4 \times 10 = 40$ marks)

Answer any FOUR questions.

20. Examine the macro and micro economic factors which have an impact on the Indian stock market.

21. Critically examine the impact of taxes on the value of company.

22. Describe the steps involved in portfolio selection.

23. Discuss the advantages of including gold in the portfolio.

24. The following table gives an analysts expected return on two stocks for particular market returns.

Market return	Aggressive stock	Defensive stock
6%	2%	8%
20	30	16

(a) What are the betas of the two stocks?

(b) What is the expected return on each stock if the market return is equally likely to be 6% or 20%?

(c) If the risk-free rate is 7% and the market return is equally likely to be 6% or 20% what is the SML?

(d) What are the alphas of the two stocks?

25. The returns of two assets under four possible states of nature are given below:

State of Nature	Probability	Return on asset 1	Return on asset 2
1	0.10	5%	0%
2	0.30	10%	8%
3	0.50	15%	18%
4	0.10	20%	26%

(a) What is the standard deviation of the return on asset 1 and on Asset 2?

(b) What is the covariance between the return on assets 1 and 2?

(c) What is the coefficient of correlation between the returns on assets 1 and 2?