STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2004-2005 & thereafter)

SUBJECT CODE : **CM/MO/PF64**

B.Com. DEGREE EXAMINATION APRIL 2009
COMMERCE
SIXTH SEMESTER

COURSE : **MAJOR – OPTIONAL**
PAPER : **PORTFOLIO MANAGEMENT**
TIME : **3 HOURS** **MAX. MARKS : 100**

SECTION – A

ANSWER ALL QUESTIONS: (10 x 3 = 30)

1. Distinguish and illustrate financial assets and real assets.

2. What is meant by optimal portfolio and how can it be found out?

3. Mr.Ahmed is now forty years old. He plans to retire when he is fifty five years. If he wants an annual pension of Rs.1,20,000 for 15 years after his retirement, how much should he save in an investment scheme (pension plan) today, given the assured return of 8% p.a.?

4. Compute the beta of the two stock and comment:

Expected market return (%)	Expected return of Stock X	Stock Y
15	24	10
5	18	20

5. What is YTM? How is it different from YTC?

6. If Alpha Limited has paid a dividend of Rs.4 recently, compute the intrinsic value given that dividends are expected to grow at 12% while the expected return is 18%.

7. How are industries classified for the purpose of fundamental analysis of stocks? Give illustration for any one category with reference to Indian business environment as it exists today.

8. Mr.Balu buys a call option on ABC shares at a strike price of Rs.420, expiry in 90 days, paying a premium of Rs.21. He also buys a put option on the same stock, same exercise price, same expiration date paying a premium of Rs.42. If on expiry, the spot price of ABC share is Rs.432, what will be the profit or loss to Mr.Balu?

9. What is meant by 'marking to market' in the case of futures contact?

..2

10. Find the minimum variance portfolio given the following

Stock	Expected return (%)	Variance of returns $(\%)^2$
A	12	64
B	15	9

Covariance of returns = $-24(\%)^2$

SECTION – B

ANSWER ANY FIVE QUESTIONS: (5 x 8 = 40)

11. Explain briefly the steps involved in portfolio management process.

12. What do you mean by Asset Allocation? Discuss in brief any two major approaches in this context.

13. The current market price of a bond with a four year maturity and 9% coupon (payable annually) is Rs.927. (Face Value = Rs.1000). Find the Yield-To-Maturity of this bond.

14. Find the beta value of the stock XYZ given the following:

Economic scenario	Portability of occurrence	Expected return	
		Market (%)	Stock XYZ (%)
A	0.2	-10	5
B	0.3	5	10
C	0.4	20	20
D	0.1	25	30

15. Stating the key assumptions made, discuss the salient features of Markowitz Portfolio Theory.

16. Discuss in brief the three forms of Efficient Market Hypothesis.

17. Distinguish Active from Passive portfolio management. Explain any two approaches in this context.

SECTION – C

ANSWER ANY TWO QUESTIONS: (2 x 15 = 30)

18. You are given the following data:

Mutual fund	Realized return (%)	Standard deviation (%)	Beta
A	15	10	1.20
B	18	6	0.75
C	12	8	1.50

Average market return = 10% (S.D. = 5%)
Risk free rate of return = 5%.

..3

a) Analyze the performance of the three mutual funds.
b) What other factors are to be considered before a final verdict on performance can be passed?

19. Compute the risk and return of a port folio of the following two stocks in equal proportions:
Stock A
Current market price = Rs.60
Expected dividend in the next one year = Rs.4
Stock B
Current market price = Rs.125
Expected dividend in the next one year = Rs.8.

Scenario after one year	Probability of occurrence	Expected market price of Stock A (Rs.)	Stock B (Rs.)
I	0.3	62	142
II	0.2	68	92
III	0.3	59	117
IV	0.2	74	167

20. ABC Limited has recently imported a machinery from Germany for euro 1 million, due in 3 months time. Its bankers have provided the following information :
Spot : €1 = Rs.76.80 – 76.95.
3 month forward : €1 = Rs.78.00 - Rs.78.20.
Interest rates India: 10% p.a.; Germany : 2% p.a.
Required :
a) What is the forward premium / discount on euro?
b) Applying Interest rate parity theorem, what should be the forward quote?
c) Is there any opportunity that ABC can exploit? How?

21. Explain the various methods of equity valuation.

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