

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 7126 Roll No.

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M.B.A.**(Semester-III) Theory Examination, 2011-12****SECURITY ANALYSIS AND INVESTMENT****MANAGEMENT***Time : 3 Hours]**[Total Marks : 100**Note : Attempt questions from each Section as indicated.***Section-A**Attempt *all* parts. Answer in 50-75 words each. $2 \times 10 = 20$

1. (a) Define capital market efficiency.
- (b) What is systematic risk and unsystematic risk ?
- (c) What is efficient market hypothesis ?
- (d) What is an option ? Distinguish between a call option and a put option.
- (e) What is the meaning of the term yield to maturity for bonds ?
- (f) What are the assumptions of perpetual growth models ?

6. What is capital asset pricing model (CAPM) ? Explain its assumptions.

Or

Explain the logic of the arbitrage pricing model (APM). How does it compare and contrast with CAPM ?

7. Illustrate with the help of an example the linkage between share price and earnings. What is the importance of the price-earnings (P/E) ratio ? What are its limitations ?

Or

Illustrate the method of valuing (i) bonds in perpetuity and (ii) bonds with a maturity period.

(g) What are the securities issued by a company in a new issues market?

(h) Illustrate the computation of the expected rate of return of an asset.

(i) Define the efficient portfolio.

(j) What is a protective put?

Section-B

2. Attempt any three parts. Answer in 100–200 words:

10×3=30

(a) Illustrate the concept of put call parity.

(b) How can risk of a security be calculated? Explain your answer with the help of an example.

(c) Explain the assumptions and principles underlying the portfolio theory.

(d) A company expects to pay a dividend of Rs. 7 next year that is expected to grow @ 6%. It retains 30% of earnings. Assume a capitalization rate of 10%. You are required to (i) calculate the expected earnings per share next year, (ii) return on equity, (iii) the value of growth opportunities.

(e) A Rs. 100 perpetual bond is currently selling for Rs. 95. The coupon rate of interest is 13.5% and the appropriate discount rate is 15%. Calculate the value of the bond. Should it be purchased? What is its yield to maturity?

Section-C

Answer all question in 300–500 words each. 10×5=50

3. Briefly describe the developments in the stock markets in India.

Or

Write a short note on SEBI and its guidelines.

4. What will be the lower and upper bounds for the price of a call option? Explain the reasons.

Or

Why is ordinary share an option? Explain.

5. Explain and illustrate a one step binomial approach to value a European option.

Or

What is beta? How is it measured? How do you calculate the expected rate of return of a security?