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

PAPER ID : 7126 Roll No. | | | | | | | | | | |

MBA

(SEMESTER-III) THEORY EXAMINATION, 2012-13

SECURITY ANALYSIS AND INVESTMENT MANAGEMENT

Time : 3 Hours] ***[Total Marks : 100***

Section – A

1. Answer **all** questions :

   (a) What is a bond ? Is it same as a debenture ?

   (b) What is an ordinary share ? What are its features ?

   (c) Define a yield curve.

   (d) What is default risk and default risk premium ?

   (e) What is return ? What are the components of return ?

   (f) Define systematic and unsystematic risks.

   (g) What is beta ? How is it measured ?

   (h) What is an option ?

   (i) What are the factors that influence the prices of options on share ?

   (j) Define efficient portfolio.

Section – B

2. Answer any **three** questions :

   (a) A company expects to pay a dividend of ₹ 7 next year that is expected to grow at 6%. It retains 30% of earnings. Assume a capitalization rate of 10%. You are required to (a) calculate the expected earnings per share next year, (b) return on equity and (c) the value of growth opportunities.

   (b) What is the meaning of the term yield to maturity for bonds and preference shares ?

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

(d) What factors influence the beta of a share ? Explain.

(e) Explain the difference between selling a call option and buying a put option. Illustrate your answer.

Section – C

Answer **all** questions.

3. Explain the logic of the Arbitrage Pricing Theory (APT) ? How does it compare and contrast with CAPM ?

OR

Explain the Security Market Line (SML) with the help of a figure. How does it differ from the Capital Market Line ?

4. What is the essential difference between the Sharpe and Treynor indexes of portfolio performance ? Which do you think is preferable ? Why ?

OR

Under that circumstances might an investor want to switch from an aggressive growth common stock fund to a money market fund within a family of mutual funds.

5. Explain the Markowitz methodology of determining efficient portfolio.

OR

Explain the single index (beta) model for determining efficient portfolio.

6. How can a spread be created ? What is a straddle ? What is a strangle ? Draw pay-off graphs to explain the implications of a spread, a straddle and a strangle.

OR

What are the assumptions of the Black-Scholes model for option pricing ? What are the attributes of the model ?

7. What is the perpetual growth model ? What are its assumptions ? Is this model applicable in a finite case ?

OR

Explain the concept of valuation of securities. Why is the valuation concept relevant for financial decision making purposes ?
