

BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE PILANI, K K BIRLA GOA CAMPUS

FIRST SEMESTER 2019-20

MID SEMESTER EXAMINATION

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT ECON F412/FIN F313

MAX MARKS: 30

DATE:1/10/2019

TIME: 4PM-5.30PM

INSTRUCTIONS: Answer all questions. Mere 'yes' or 'No' would fetch no marks. Justify your answers wherever necessary.

Q1a- Give the equation for an Investment return that justifies its definition.

Explain through an arithmetic example. (3M)

Q1b-If Expected Returns for two Investments A and B are 0.16 and 0.25

respectively with corresponding SD at 0.08 and 0.12, which investment is

riskier? Is it right to take SD as a measure of risk? (3M)

[But SD is analytically more tractable. And if a variable is normally distributed as per assumption, its mean and SD contain all information about its probability distribution. If utility of money is a quadratic function, then $E(U)$ is a function of mean and SD.] This justifies SD. However answer on CV is more correct.

Q1c-Can systematic risk and unsystematic risk be related? (2M)

Q2a-On an SML, arrange in proper order: Foreign Govt. Bonds, Real Estate

(Personal Home), Arts& Antiques, Coins & Stamps, [Hint: No marks without

proper naming of axes.] (2M)

Q2b- Can T Bills ever be riskier than stocks and why? (2M)

Q3-What would be the bid ask spread: (3M)

If (a) stock price is low; b-Trade volume higher; c- Less liquidity

Q4a-If cash payment received is Rs100 on an Investment but price changes are Rs48 when end price was showing Rs550, can you calculate current return, capital return and Total return? (3M)

Q4b-If total return for an Ambani equity share in 2015-16 was 15% and rate of inflation for the same year was 4%, can you calculate real return? (2M)

Q5a- 8.20 GS 2023 which is maturing on 3 July 2023 has coupon payment schedules on 3 January and 3 July. Six monthly interest rates starting from now to the maturity of the bond are 6.5, 6.65, 6.7, 6.9, 6.9, 7.1, 7.5 and 7.9 percent per annum. If a trader wants to purchase the bond on 1st October 2019, what is the clean and dirty price of the bond? Assume the par value of bond is Rs. 100. (6M)

Q5b-What is the 'term structure of interest rates'? Explain the economic significance of different forms of yield curve. (4M)
