LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.A. DEGREE EXAMINATION – **ECONOMICS**

FOURTH SEMESTER – **APRIL 2022**

PEC 4501 – PORTFOLIO THEORY AND INVESTMENT ANALYSIS

Date: 15-06-2022 Dept. No. Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

PART – A

Answer any FIVE questions in about 75 word each. (5 x 4 = 20 Marks)

1. What are the main legislations governing the Capital Market?
2. What are derivatives? Give examples.
3. Distinguish between systematic and unsystematic risk.
4. Write a short note on multifactor asset pricing model.
5. What is meant by High Frequency Trading?
6. Arvind is considering buying a Rs. 1000 par value bond bearing a coupon rate of 11 per cent that matures after five years. He wants a minimum yield to maturity of 15 per cent. The bond is currently sold at Rs. 870. Should he buy the bond?
7. What is meant by Colocation? State its significance.

PART – B

Answer any FOUR questions in about 300 words each. (4 x 10 = 40 Marks)

8. Examine the pros and cons of exchange trading and over the counter trading.
9. Briefly explain the Black-Scholes option pricing model and identify its superiority over Binomial model.
10. Explain emotional and social influences on investor's financial decisions. Bring out the strategies for overcoming psychological biases.
11. Compute expected return of Stock A, Stock B and the Portfolio. Explain the influence of diversification on portfolio risk using the following data:

State of the Economy	Probability	Return on Stock A	Return on Stock B	Return on Portfolio
1	0.20	15%	-5%	5%
2	0.20	-5%	15%	5%
3	0.20	5%	25%	5%
4	0.20	35%	5%	20%
5	0.20	25%	35%	30%

12. Trace the evolution of algorithmic trading and its trends in India.

13. Bring out the alternative avenues available for investment.

14. Describe the Capital Asset Pricing Model.

PART – C

Answer any TWO questions in about 1200 words each. (2 x 20 = 40 Marks)

15. Elaborate the various components and their instruments of Indian Financial Market.

16. (a) Explain the Put-Call parity.

    (b) Price of a European call option with a strike price of $20 is $5. Price of a European put option with a strike price of $20 is $5. Underlying stock is selling for $23. Risk free rate is 3%. Time to expiration is one year. Is there an arbitrage opportunity? If yes, how should it be exploited?

17. Examine the investment orientation of Mutual fund schemes.

18. Elaborate the advantages and disadvantages of High Frequency Trading.

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