LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**B.Com.** DEGREE EXAMINATION – **CORPORATE SEC.**

SIXTH SEMESTER – APRIL 2011

# BC 6602 - PORTFOLIO MANAGEMENT

Date : 07-04-2011 Dept. No. Max. : 100 Marks

Time : 9:00 - 12:00

**PART –A**

ANSWER ALL QUESTIONS (10 x 2 = 20marks)

1. Define the term ‘Portfolio’.
2. Differentiate between σ and β as a measure of risk.
3. State the components of Rate of return.
4. What is meant by Yield to Maturity?
5. Write short notes on Diversification.
6. What are the risks associated with investment in Bonds?
7. Give the meaning of ‘formula plans’
8. A 4 year bond with 7% coupon rate which matures at Rs.1000 is currently traded at Rs.905. Calculate YTM if the investor’s required rate is 10%.
9. A stock has a required rate of return of 11% as per CAPM. Market return = 10% and risk free return = 5%. Calculate Beta and state whether the stock is defensive or aggressive.
10. Evaluate the performance of the following portfolio as per Treynor’s Ratio:

Portfolio Return, RP = 50% Market return, RM = 30%

σ P = 25% σM = 20%

Risk free rate Rf  = 10%

**PART – B**

ANSWER ANT FIVE QUESTIONS (5 x 8 = 40marks)

1. Bring out the objectives of an investment.
2. What are the stages in the Industry Life Cycle? Explain the significance of this concept to an investor.
3. What are the fixed income securities available to an investor?
4. Briefly explain the variables that affect the valuation of Bonds.
5. What are the assumptions of CAPM? Are there any limitations of this model?
6. Stocks R & S display the following return over the past three years.

Year R(%) S(%)

2004 10 12

2005 16 18

2006 12 5

What is the expected risk and return of Portfolio made up of 40% of R and 60% of S?

1. The return of two assets under four possible state of nature is given below.

|  |  |  |  |
| --- | --- | --- | --- |
| State of nature | Probability | Return on asset 1 | Return on asset 2 |
| 1 | 0.10 | 5% | 0% |
| 2 | 0.30 | 10% | 8% |
| 3 | 0.50 | 15% | 18% |
| 4 | 0.10 | 20% | 26% |

a)What is the standard deviation of the return on asset 1 & asset 2?

b) What is the covariance between the return on asset1& asset 2?

18. The following information is available in respect of securities A and B:

Security β Expected return Risk premium

A 0.50 ? 4%

B 1.75 20% ?

On the basis of the following information, find out whether the following

securities are over - priced or under priced:

|  |  |  |
| --- | --- | --- |
| security | β | Expected return(%) |
| I | 2.00 | 20 |
| II | 0.75 | 14 |
| III | 1.25 | 15 |
| IV | -0.25 | 5 |
| V | 3.25 | 31 |

PART – C

ANSWER ANY TWO QUESTIONS (2 x 20 = 40 marks)

1. Systematic risk cannot be controlled while unsystematic risk can be reduced. Elucidate.
2. Explain the concept of Economic analysis for Investment decision.
3. After a thorough analysis of the aggregate stock market and the Stock of TMT company, you develop the following opinion:

Likely returns

|  |  |  |  |
| --- | --- | --- | --- |
| Economic conditions | Aggregate market | TMT | Probability |
| Good | 16% | 20% | 0.4 |
| Fair | 12% | 13% | 0.4 |
| Poor | 3% | - 5% | 0.2 |

At present the risk free rate is equal to 7%. Would an investment in TMT be

wise?

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