



# **BRAINWARE UNIVERSITY**

**Course – M.Com**

**Financial Markets and Financial Engineering (MCM 306A)**

**(Semester – 3)**

**Time allotted: 3 Hours**

**Full Marks: 70**

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

## **Group –A**

**(Multiple Choice Type Question)**

**1. Choose the correct alternatives for the following:**

**10 x 1 = 10**

- I. Which of the following loan is an interest free loan provided by VCFs without any predetermined repayment schedule?
  - a. Conventional loan
  - b. Conditional loan
  - c. Income notes
  - d. None of these.
- II. The features of hire purchase:
  - a. The possession of goods is given to the buyer immediately.
  - b. The ownership in the goods remains with the vendor till the last installment is paid.
  - c. The seller can repossess the goods in case of default in payment .
  - d. All of these.
- III. Pre- issue management activities include:-
  - a. Lead manager
  - b. Underwriting
  - c. Overall supervision
  - d. None of these.
- IV. \_\_\_\_\_ is basically a savings and investment corporation.
  - a. UTI
  - b. IDBI
  - c. SBI
  - d. RBI

- V. Functions of a factor exclude.
- Credit rating
  - Credit recording
  - Credit administration
  - Credit financing.
- VI. Secondary markets in treasury bills require involvement of \_\_\_\_\_ and \_\_\_\_\_.
- Brokers, Dealers
  - Buyers, Sellers
  - Consumer, Producer
  - All of the above
- VII. N.B F C stands for.
- Non banking finance companies
  - Non banking financial corporation
  - Non bulk finance companies
  - None of these.
- VIII. What is repo rate
- A rate at which RBI lends to banks
  - A rate at which Banks lend to RBI
  - A rate at which RBI lends to Central Government
  - All of the above
- IX. ----- is known as Mezzanine capital.
- Development financing
  - Expansion financing
  - Replacement finance
  - None of these.
- X. Mutual fund can benefit from economies of scale because of
- Portfolio diversification
  - Risk reduction
  - Large volume of trade
  - None of the above

### Group - B

#### (Short Answer Type Questions)

**Answer any three of the following**

**3 x 5 = 15**

- Who can be appointed as Asset Management Company (AMC)?
- State the objective of measuring working capital on the basis of gross working capital and net working capital.
- Discuss about Certainty Equivalent Approach.
- Write a note on buy -back of shares by companies.

**Group - C**  
**(Long Answer Type Questions)**

Answer any three of the following

3 x 15 = 45

6. The A firm has an investment proposal, requiring an outlay of Rs. 80,000. The investment proposal is expected to have two years economic life with no salvage value. In year 1, there is a 0.4 probability that cash inflow after tax will be Rs. 50,000 and 0.6 probability that cash inflow after tax will be Rs. 60,000. The probability assigned to cash inflow after tax for the year 2 is as follows:

The cash inflow year 1	Rs. 50,000		Rs. 60,000	
The cash inflow year 2	Cash Flow	Probability	Cash Flow	Probability
	Rs. 24,000,	0.2	Rs. 40000	0.4
	Rs. 32,000	0.3	Rs. 50000	0.5
	Rs. 44,000	0.5	Rs. 60,000	0.1

The firm uses a 10% discount rate for this type of investment.

Required:

- (i) Construct a decision tree for the proposed investment project and calculate the expected net present value (NPV).
- (ii) What net present value will the project yield, if worst outcome is realized? What is the probability of occurrence of this NPV?
- (iii) What will be the best outcome and the probability of that occurrence?
- (iv) Will the project be accepted? (Note: 10% discount factor 1 year 0.909; 2 year 0.826)

[15]

7. i) Who can be appointed as Asset Management Company (AMC)?
- ii) Write the conditions to be fulfilled by an AMC.
- iii) What are the obligations of AMC?

[5+5+5=15]

8. i) M Ltd. has to make a payment on 30th January, 2010 of Rs. 80 lakhs. It has surplus cash today, i.e. 31st October, 2009; and has decided to invest sufficient cash in a bank's Certificate of Deposit scheme offering an yield of 8% p.a. on simple interest basis. What is the amount to be invested now?

- ii) AXY Ltd. is able to issue commercial paper of Rs. 50,00,000 every 4 months at a rate of 12.5% p.a. The cost of placement of commercial paper issue is Rs. 2,500 per issue. AXY Ltd. is required to maintain line of credit Rs. 1,50,000 in bank balance. The applicable income tax rate for AXY Ltd. is 30%. What is the cost of funds (after taxes) to AXY Ltd. for commercial paper issue? The maturity of commercial paper is four months.

[7+8=15]

9. Write short notes on the following

- i) Book building
- ii) Insider Trading
- iii) The Employees Stock Option Plans

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[5x3=15]