



**BRAINWARE UNIVERSITY**

**Term End Examination 2018 - 19**

**Programme – Master of Business Administration / Master of Commerce in Banking and Financial Accounting**

**Course Name - Security Analysis and Portfolio Management**

**Course Code - FM303 / MCM304A**

(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)

10 x 1 = 10

1. *Choose the correct alternative from the following*
  - (i) The liquidity and profitability are
    - a. Proportionately related
    - b. Inversely related
    - c. Not related
    - d. None
  - (ii) If the growth rate in dividend is negative, then value of equity share
    - a. Remain same
    - b. Become zero
    - c. Declines
    - d. increases
  - (iii) Markowitz has formalized the risk return relationship and developed the concept of
    - a. Efficient frontier
    - b. Fundamental analysis
    - c. Technical analysis
    - d. None
  - (iv) The diluted EPS is calculated
    - a. After conversion of convertible bonds
    - b. Before charging depreciation
    - c. After redemption of bank loans
    - d. None of the above

- (v) The growth rate in dividend can be measured as
- |   |                                       |
|---|---------------------------------------|
| a. Return on equity X Retention ratio       | b. Return on equity – Retention ratio |
| c. Return on equity X Dividend Payout ratio | d. None                               |
- (vi) The objective of SML is to identify
- |                                    |   |
|------------------------------------|---|
| a. Expected return of the security | b. Determine the overvalued or undervalued security |
| c. Both of the above               | d. None of the above                                |
- (vii) The value of beta depends upon the
- |   |                                    |
|---|------------------------------------|
| a. Market index on which it is calculated | b. Time for which it is calculated |
| c. Both of the above                      | d. None of the above.              |
- (viii) Less is the dividend; \_\_\_\_\_ is the value of share.
- |                |         |
|----------------|---------|
| a. More        | b. Less |
| c. Independent | d. Zero |
- (ix) The realized YTM considers the
- |                        |                        |
|------------------------|------------------------|
| a. Reinvestment return | b. Capital gain return |
| c. Both of the above   | d. None                |
- (x) The ROE value depends upon
- |                  |                      |
|------------------|----------------------|
| a. Leverage      | b. Asset Turnover    |
| c. Profit Margin | d. All of the above. |

### Group – B

(Short Answer Type Questions)

3 x 5 = 15

Answer any *three* from the following

- |  |   |
|--|---|
| 2. State the significance of cash EPS for cross section analysis?  | 5 |
| 3. A Rs.1000 par value bond, bearing a coupon rate of 12 percent will mature after 6 years. What is the value of the bond, if the discount rate is 16 percent?   | 5 |
| 4. Adinath Limited is expected to give a dividend of Rs.3 next year and the same would grow by 15 percent per year forever. Adinath pays out 30 percent of its earnings. The required rate of return on Adinath's stock is 16 percent. What is the PVGO? | 5 |
| 5. Differentiate between SML and CML?  | 5 |
| 6. The gross profit ratio of a firm remains same but the net profit ratio is improved in last year. Do you think that investment in this company is worthy?  | 5 |

**Group – C**

(Long Answer Type Questions)

3 x 15 = 45

Answer any *three* from the following

- 7. (a) Explain in detail the Dow Jones Theory? 12
- (b) Differentiate between technical and fundamental analysis for investment decision. 3
- 8. (a) Which of the following portfolio is more consistent with respect to its risk and return?

Portfolio	Expected return (%)	Standard deviation (%)
1	10	12
2	8	10
3	20	18
4	15	11
5	22	20
6	18	15
7	15	12

- (b) Constitute the efficient set from the above portfolio? 8
  - 9. (a) Which of the following portfolios constitute the efficient set: 7
- | Portfolio | Expected return (%) | Standard deviation (%) |
|-----------|---------------------|------------------------|
| 1         | 15                  | 18                     |
| 2         | 18                  | 22                     |
| 3         | 10                  | 9                      |
| 4         | 12                  | 15                     |
| 5         | 15                  | 20                     |
| 6         | 13                  | 16                     |
| 7         | 22                  | 22                     |
| 8         | 14                  | 17                     |
- (b) Which portfolio is best in terms of its risk and return? 8
  - 10. (a) The risk-free return is 7 percent and the return on market portfolio is 13 percent. Stock P's beta is 0.8; its dividends and earnings are expected to grow at the constant rate of 5 percent. If the previous dividend per share of stock P was Rs.1.00, what should be the intrinsic value per share of stock P? 7
  - (b) The equity stock of Amulya Corporaion is currently selling for Rs.1200 per share. The dividend expected next is Rs.25.00. The investors' required rate of return on this stock is 12 percent. Assume that the constant growth model applies to Max Limited. What is the expected growth rate of Max Limited? 8

11. (a) Consider two stocks, P and Q

	Expected return (%)	Standard deviation (%)
Stock P	18 %	12 %
Stock Q	24 %	17 %

The returns on the stocks are perfectly negatively correlated.

What is the expected return of a portfolio comprising of stocks P and Q when the portfolio is constructed to drive the standard deviation of portfolio return to zero?

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- (b) The risk-free return is 6 percent and the expected return on a market portfolio is 15 percent. If the required return on a stock is 18 percent, what is its beta?

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