BRAINWARE UNIVERSITY

Term End Examination 2018 - 19

Program – Master of Commerce in Banking & Financial Accounting

Course Name- Financial Markets and Financial Engineering

Course Code- MCM306A

(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) _____allocates saving efficiently in an economy to ultimate users either for investment in real assets or for consumption

     a. Economic system   b. Financial system

     c. Banking system   d. Market system

(ii) _____ is a process of admitting securities for trading on a recognised stock exchange.

     a. registration   b. listing

     c. filing   d. admission

(iii) The facility to carry forward a transaction from one settlement period to another is known as .... transaction

     a. Badla   b. cornering

     c. arbitrage   d. trading inside

(iv) Method of trading in NSE is

     a. Floor based- Order driven   b. Screen based - Order driven

     c. Screen based- Code driven   d. Floor based - Quote driven

(v)   A time series consists of:

      a. Short-term variations   b. Long-term variations

      c. Irregular variations   d. All of these

(vi)   BOLT stands for

      a. Borrowing or Lending Trade   b. Bombay Online Trading

      c. Bond or Loan Transaction   d. None of these

(vii)   The method of moving average is used to find the

      a. Secular trend   b. Seasonal variation

                                      d. None of these

      c. Cyclical variation

(viii) Choose from the following that are Decision Tree nodes

      a. Decision Nodes   b. End Nodes

      c. Chance Nodes   d. All of these

(ix)   Profit for the objective of calculating a ratio may be taken as

      a. Profit before tax but after interest   b. Profit before interest and tax

      c. Profit after interest and tax   d. All of these

(x)   Which ratio is considered as safe margin of solvency?

      a. Liquid ratio   b. Super Quick ratio

      c. Current ratio   d. None of these

Group – B

(Short Answer Type Questions)   3 x 5 = 15

Answer any *three* from the following

2.   Mkv invested in equity shares of Wipro Co. Its anticipated returns and associated probabilities are given below:

Return %	-15	-10	5	10	15	20	30
Probability	0.05	0.10	0.15	0.25	0.30	0.10	0.05

Compute the risk and return of the stock.

                                                              3+2

3. A stock that pays no dividends is currently selling at Rs.100. The possible prices for which the stock might sell at the end of one year, with associated probabilities, are:

End-of-year Price	Probability
Rs.90	0.1
Rs. 100	0.2
Rs. 110	0.4
Rs. 120	0.2
Rs. 130	0.1

   Determine whether stock is worthy to buy.   5

4. GVK Ltd.is considering two mutually exclusive projects. The initial cost of both projects is Rs.5,000, and the expected life of project is 5 years. Under three possible states of economy, their annual net cash flows (NCF) and associated probabilities are as follows:

		NCF (Rs.)	
Economic State	Probability	Project A	Project B
Good	0.30	6,000	5,000
Normal	0.40	4,000	4,000
Bad	0.30	2,000	3,000

   If the discount rate is 7 percent, which project should the company accept?   5

5. What are the risks associated with mutual funds?   5

6. Using Altman's Multiple Discriminant Functions, calculate Z-score (1983) of S & Co. Ltd., where the five accounting ratios are as follows and comment about its financial position:

   Working Capital to Total Assets = 0.250

   Retained Earnings to Total Assets = 50%

   EBIT to Total Assets = 19%

   Book Value of Equity to Book Value of Total Debt= 1.65

   Sales to Total Assets = 3 times.   5

Group – C

(Long Answer Type Questions)   3x 15 = 45

Answer any *five* from the following

7. (a) State the management structure of SEBI.   5

   (b) Discuss the role of SEBI in the Investors' Protection.   10

8.   A company manufactures 30 items per day. The sale of these items depends upon demand which has the following distribution:

Sales (Units)	Probability
27	0.10
28	0.15
29	0.20
30	0.35
31	0.15
32	0. 05

The production cost and sale price of each unit are Rs. 40 and Rs. 50 respectively. Any unsold product is to be disposed of at a loss of Rs. 15 per unit. There is a penalty of Rs. 5 per unit if the demand is not met.

Using the following random numbers estimate total profit / loss for the company for the next 10 days: 10, 99, 65, 99, 95, 01, 79, 11, 16, 20

If the company decides to produce 29 items per day, what is the advantage or disadvantage to the company?   15

9.   Mr. suresh owns a plot of land on which he intends to construct apartment units for sale. Number of apartments to be constructed may be either 10 or 15. Total Construction costs for these alternatives are estimated to be Rs.600 Lakhs or Rs.1025 Lakhs respectively. Current market price for each apartment is Rs.80 Lakhs. The Market Price after a year will depend upon the conditions of the market. If the market is optimistic, each apartment unit will be sold for Rs.91 Lakhs and if it is sluggish, the sale price for the same will be Rs.75 Lakhs. Using Decision Tree analysis, determine the current value of vacant plot of land. Should Suresh start construction now or keep the land vacant? The yearly rental per apartment unit is Rs.7 Lakhs and risk free interest rate is 10% p.a. Assume that the construction cost will remain unchanged.

10+5

10.

The revenue account of Goodluck Ltd. has been summarized as shown below:

	Amount (Rs.)	Amount (Rs.)
Sales		60,00,000
Direct Material	18,00,000	
Direct Wages	12,00,000	
Variable Overhead	4,80,000	
Fixed Overhead	17,20,000	52,00,000
Profit		8,00,000

The licensed capacity of the company is Rs.80,00,000 but the key factor is sales demand. It is proposed by the management that in order to utilize the existing capacity, the selling price of the product should be reduced by 5%.

You are required to prepare a forecast statement showing the effect of the proposed reduction in selling price after taking into account the following changes in costs.

i.   Sales forecast Rs.76,00,000 (at reduced price)
ii.   Direct wage rates and variable overheads are expected to increase by 5%
iii.   Fixed overheads are expected to increase by Rs.80,000

15

11. (a)   What is meant by financial services of the financial system?   5

(b)   Explain different types financial services.   10