# INSTITUTE OF AERONAUTICAL ENGINEERING

**(Autonomous)**
**Dundigal, Hyderabad - 500 043**

### MODEL QUESTION PAPER

MBA III Semester End Examinations, Decembeer - 2019
**Regulation: IARE-R18**
**SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT**
**(Master of Business Administration)**

**Time: 3 Hours**                                                                 **Max Marks: 70**

Answer any ONE question from each Unit
All questions carry equal marks
All parts of the question must be answered in one place only

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## UNIT – I

1  a)  Write the procedure for calculating the present value of,                          [7M]
   - i.   Regular annuity
   - ii.  Annuity due
   - iii. Deferred annuity.

   b)  If A particular share is bought in 2011 at 50 and sold in 2012 at 60 and the dividend yield is 5 then     [7M]
   calculate the return on the investment

2  a)  What do you mean by trading order? Explain the various types of orders in security trading.     [7M]
   b)  You have $100 dollars and want to invest…       [7M]
   You went to the bank and ask where to invest your money???
   Then the bank employee says that

| State of economy | Probability | Return A | Return B |
|---|---|---|---|
| Good | 45% | 15% | 16% |
| Average | 40% | 8% | 9% |
| Bad | 15% | -11% | -13% |

   Find Expected Return and Risk

## UNIT – II

3  a)  Define capital budgeting. Explain the capital budgeting decisions under risk and uncertainty.     [7M]
   b)                                                                                                   [7M]

| Economic condition | Probability | Returns on security A | Returns on security B |
|---|---|---|---|
| Boom | 0.2 | 5 | -10 |
| Above normal | 0.40 | 30 | 25 |
| Normal | 0.3 | 20 | 20 |
| Dull | 0.1 | 10 | 10 |

   The return on two securities A & B are given in different economic conditions of a country. Find out
   their Expected returns and Variance.

4  a)  Discuss Walter and Gordon model in valuation of equity shares under earnings concept in detail.     [7M]
   b)  A Corporation has a required rate of return of 16% and its current dividend is Rs.3 per share. If the     [7M]
   current price is Rs.55 per share. What is the growth rate of its dividend ?

## UNIT – III

5  a)  What are the various types of bonds? What is the difference between collateral trust bonds and bonds with warrants?  [7M]

   b)  A deep discount bond has a maturity period of 10 years. It has the face value of Rs.1,00,000. Find out the value of the bond if required rate of return is 15%  [7M]

6  a)  What do you mean by Macaulay s bond duration and Modified Macaulay s bond duration with an example.  [7M]

   b)  A 10% bond of rs.1000 has a redemption period of 4 years. Bond is currently selling at Rs.900. bond carries the interest amount of Rs.100,100 and 100 and a redemption value of 1100 at the end of 4 years from now. Ytm of the bond is 12%.find the bond duration.  [7M]

## UNIT – IV

7  a)  Discuss Walter's the relevance theory of dividend which supports the argument that dividend decision has an impact on shareholders' value and value of the firm.  [7M]

   b)  A company has a profit after tax@30% Rs.330000. the market price of equity shares is 95. It has paid a dividend to equity shareholders at rate of 15%. The capital structure of the company comprises of 80000 equity shares of 100 each. Analyze earnings per share, price earnings ratio.  [7M]

8  a)  What do you understand by dividend discount models? State its advantages and limitations.  [7M]

   b)  The current dividend on an equity share of polar technology is Rs.3. polar is expected to enjoy an above normal growth rate of 40% for 5 years. Thereafter the growth rate will fall and stabilize at 12%. Equity investors require a return of 18% from polar stock. What is the intrinsic value of the equity shares of polar?  [7M]

## UNIT – V

9  a)  Discuss the concept of portfolio management. What are the objectives of portfolio management?  [7M]

   b)  Calculate Sharpe and Treynor Models from the following data  [7M]

| | RETURN | S.D | RISK LESS RETURN | BETA |
|---|---|---|---|---|
| A | 20 | 4 | 10 | 0.5 |
| B | 24 | 8 | 10 | 1.0 |

10  a)  What is Jensons model in portfolio management? Write the advantages and disadvantages of Jenson model in detail?  [7M]

    b)  A mutual fund has a NAV of Rs.10.60 in the beginning and Rs.10.90 at the end of period. Calculate the return of the mutual fund, when dividend of Rs.1.50distributed. if there is a capital gain also distribute 0.50 paisa?  [7M]

## COURSE OBJECTIVES (COs):

The course should enable the students to:

| I | Enrich the knowledge of investment alternatives, process and portfolio management. |
|---|---|
| II | Develop an understanding of the changing domestic and global investment scenario in general and Indian capital market in particular with reference to availability of various financial products and operations of stock exchanges. |
| III | Provide an in-depth knowledge of the theory and practice of portfolio management. Important theories, techniques, regulations and certain advancements in theory of investment |
| IV | Familiarize the participants with the stock markets of India, its terminology, types of securities, the determinants of the price behavior of securities, evaluation of fair price, and to provide a conceptual insight to the valuation of securities |

## COURSE OUTCOMES (COs)

Students who complete the course will have demonstrated the ability to do the following.

| CMBB34.01 | Understand the investment environment in India, overview of Indian financial system securities. |
|---|---|
| CMBB34.02 | Explain the investment management process and security analysis. |
| CMBB34.03 | Recognize the significance of risk and return relationship from investing Markowitz portfolio theory. |
| CMBB34.04 | Know the risk and returns from investing Markowitz portfolio theory and portfolio selection. |
| CMBB34.05 | Analyze different types of bonds, interest rates, term structure of interest rates and measuring bond yields. |
| CMBB34.06 | Demonstrate bond pricing theorems, bond duration, and active and passive bond management strategies. |
| CMBB34.07 | Examine the concepts of equity analysis, equity valuation, and balance sheet analysis. |
| CMBB34.08 | Identify the overview of derivative markets, option markets, strategies, forward and future marketing strategies and design swaps. |
| CMBB34.09 | Understand the investment environment in India, overview of Indian financial system securities. |
| CMBB34.10 | Explain the investment management process and security analysis. |

## MAPPING OF SEMESTER END EXAMINATION TO COURSE OUTCOMES:

| SEE Question No. | | | Course Outcomes | | COs | Blooms Taxonomy Level |
|---|---|---|---|---|---|---|
| 1 | a | CMBB34.01 | Understand the various alternatives available for investment. | | CO 1 | Understand |
| | b | CMBB34.01 | Understand the various alternatives available for investment. | | CO 1 | Understand |
| 2 | a | CMBB34.02 | Explain the investment management process and security analysis | | CO 2 | Understand |
| | b | CMBB34.02 | Explain the investment management process and security analysis | | CO 2 | Understand |
| 3 | a | CMBB34.03 | Recognize the significance of risk and | | CO 3 | Remember |
| | b | CMBB34.03 | Recognize the significance of risk and | | CO 3 | Remember |

| | | | | | |
|---|---|---|---|---|---|
| 4 | a | CMBB34.04 | Know the risk and returns from investing Markowitz portfolio theory and portfolio | CO 4 | Understand |
| | b | CMBB34.04 | Know the risk and returns from investing Markowitz portfolio theory and portfolio | CO 4 | Understand |
| 5 | a | CMBB34.05 | Analyze different types of bonds | CO 5 | Remember |
| | b | CMBB34.05 | Analyze different types of bonds | CO 5 | Understand |
| 6 | a | CMBB34.06 . | Demonstrate bond pricing theorems | CO 6 | Understand |
| | b | CMBB34.06 | Demonstrate bond pricing theorems | CO 6 | Remember |
| 7 | a | CMBB34.07 | Examine the concepts of equity analysis | CO 7 | Understand |
| | b | CMBB34.07 | Examine the concepts of equity analysis | CO 7 | Remember |
| 8 | a | CMBB34.08 | Identify the overview of derivative markets, option markets, strategies, forward and future marketing strategies and design swaps | CO 8 | Remember |
| | b | CMBB34.08 | Identify the overview of derivative markets, option markets, strategies, forward and future marketing strategies and design swaps. | CO 8 | Understand |
| 9 | a | CMBB34.09 | Understand the investment environment in India | CO 9 | Understand |
| | b | CMBB34.09 | Understand the investment environment in India | CO 9 | Remember |
| 10 | a | CMBB34.10 | Explain the investment management process and security analysis. | CO 10 | Understand |
| | b | CMBB34.10 | Explain the investment management process and security analysis. | CO 10 | Understand |

**Signature of Course Coordinator**                                                    **HOD, MBA**