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## P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belagavi)

Third Semester, Master of Business Administration (MBA)

Semester End Examination; Dec - 2017/Jan - 2018

**Investment Management**

Time: 3 hrs

Max. Marks: 100

**Note:** Answer all **FOUR** full questions from **PART - A** and **PART - B** (Case Study) is compulsory.

### PART - A

- 1 a. Define Investment. Explain the attributes that one should consider while evaluating different investment avenues. 10
- b. A bond has a face value of \$1000 with a time to maturity ten years from now. The yield to maturity of the bond now is 10%,
- i) What is the price of the bond today? If it pays no coupons? 10
- ii) What is the price of the bond if it pays annual coupons of 10%
- iii) What is the price today if pays 8% coupon rate semi-annually?

### OR

- 2 a. i) Mr. Mohan is 23 years old. He is currently investing in LIC and PPF. He is look for other investment with good returns in 5 to 10 years time and ready to invest ` 50,000/- per month. Kindly advice. 5
- ii) Mr. Ramaswamy is a 52 year old government employee. He has plans to invest around ` 4 lac in a safe avenue. Could you please guide him some safe and guaranteed ventures so that he can spend his retired life with financial security. 5
- b. An investor has the following information of a bond :
- Face value : ` 1000/- coupon rate :10% p.a. time to maturity: 10 years market price : ` 1250/-, callable in 5 years at ` 1200/-, 10
- i) Find the Yield To Maturity (YTM) ii) Yield To Call (YTC).
- 3 a. Differentiate between Capital and Money market. 10
- b. XYZ corporation has its earnings and dividends growing at a rate of 15% p.a. for four years, after which, this will fall and stabilize at 10% p.a. for the next 4 years. Beyond which this will be 8% p.a. forever. If the last dividend was ` 2/- per share and inventor's required rate of return is 18%, how much should be the market value/ intrinsic value of this stock. 10

### OR

- 4 a. What is an efficient market? Explain the different forms of market efficiency. Describe the test of different forms of market efficiency. 10
- b. i) The equity stock of ABC limited is currently selling for ` 30 per share. The dividend expected next year is ` . 2.00. The investor's required rate of return on this stock is 15%. What is the expected growth rate? 10
- ii) Hindustan Manufacturing Ltd. has distributed dividend of ` 30 on each Equity share of `10. The expected rate of return is 35%. Calculate current market price of share? (Assume constant growth model).

- 5 a. Discuss the key economic variables that an investor must consider in fundamental analysis. 10
- b. What is Dow Theory? Explain the basic tenets of Dow Theory? 10

**OR**

- 6 a. Describe in detail Bond Management Strategies. 10
- b. Briefly explain the Trade Settlement Process adopted in NSE. 10
- 7 a. Explain in detail any five money Market Instruments. 10
- b. You are considering a purchase of AAA rated bond, you have found 2 bonds that have the following feature. Expected rate of returns is 15% :

	Bond A	Bond B
Face Value	₹ 1000/-	₹ 1000/-
Coupon rate	12%	15%
Periodicity of Coupon	Annual	Annual
Time to maturity	4 years	4 years
Current market price	950	1100

**OR**

- 8 a. Define PE ratio and calculate the Earnings per share and price earnings ratio from the following data :
  - i) EBIT= ₹ 5,00,000
  - ii) ₹ 10 lakhs debentures of 10% interest
  - iii) 5 lakhs preference shares of 12% dividend
  - iv) 10,000 equity shares of ₹ 10 each
  - v) Corporate income tax is ₹ 50%
  - vi) Market price of the Share is ₹ 150/-
- b. Explain the following terms :
  - i) Moving average
  - ii) MACD
  - iii) RSI
  - iv) Japanese candle stick.

**PART - B**

**9. Case Study (Compulsory):**

After graduating from a premier business school, you have joined an investment banking company looking after Debt schemes. Recently at one investment conference you met a client who requested you to use the following data on Bond A and Suggest it. The following is as below:

Face Value	₹ 100
Coupon	10% payable Annually
Time of maturity	6 years
Redemption value	1100
YTM	12%

- a) What is the duration of Bond A?
- b) Calculate the Modified duration.
- c) If the yield of Bond A increase by 20 basis point. What will be the percentage change in the bond price?
- d) Calculate the new bond price and modified duration.

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