(ii) The stated yield to maturity and realized compound yield to maturity of a (default-free) zero-coupon bond will always be equal. Why?

(iii) Why do bond prices go down when interest rates go up? Do you think lenders like high interest rates? Explain.

(iv) Describe one advantage and one disadvantage of including callable bonds in a portfolio.

5) Define Portfolio Theory. How diversification influences Portfolio Risk? Show graphically the concept of Efficient Frontier and determine the optimal Portfolio for an investor.

6) What are the key assumptions of Capital Assets Pricing Model(CAPM)? Explain the Capital Market Relationship and Security Market Relationship. Also explain in brief the inputs required for applying CAPM.

7) Discuss the Passive and Active Equity Portfolio Management Strategies in detail. Also write a note on the Asset Allocation Strategies.

8) (a) Consider an economy where the dominant industry is automobile production for domestic consumption as well as export. Now suppose the auto market is impacted by an increase in the length of time people use their cars before replacing them. Describe the probable effect of this change on

(i) GDP

(ii) Unemployment

(iii) Government budget deficit

(iv) Interest rates.

(b) In which phase of the business cycle would you expect the following industry to show their best performance?

(i) Newspapers

(ii) Machine Tools

(iii) Beverages

(iv) Timber

END OF PAPER

2112M061

MASTER OF VOCATION
Management (Banking and Finance)
Subject: Security Analysis and Portfolio Management
Subject Code: MFM-907
Semester: Third
December 2021
Theory (External): 70 Marks
Time: 03 Hours

Instructions to the Students

1. This Question paper consists of two Sections. All sections are compulsory.
2. Section A comprises 10 questions of objective type in nature. All questions are compulsory. Each question carries 2 marks.
3. Section B comprises 8 essay type questions out of which students need to do any 5. Each question carries 10 marks.
4. Read the questions carefully and write the answers in the answer sheets provided.
5. Do not write anything on the question paper.
6. Wherever necessary, the diagram drawn should be neat and properly labelled

Roll Number

SECTION –A (SHORT/OBJECTIVE TYPE QUESTIONS)

(10x2=20 Marks)

A. The various methods which are used in the floating of securities in the new issue market are ________, ________, ______ and ________.

B. Consider two firms producing DVD recorders. One uses a highly automated robotics process, whereas the other uses workers on an assembly line and pays overtime when there is a heavy production demand.
   (i) Which firm will have higher profits in a recession? In a boom?
   (ii) Which firms stock will have a higher beta?

C. State True or False
   (a) If the utility function is linear, the decision-maker maximizes expected utility by maximizing expected monetary value.
   (b) The hurdle rate is the maximum acceptable return on an investment.

D. Every industry passes through four distinct phases of the life cycle, viz. ...., ..., ... and ....

E. Fill in the blanks:
   (a) .... strategies do not seek to outperform the market but simply to do as well as the market.
   (b) ______________________ theory proposes how rational investors will use diversification to optimize their portfolios, and how a risky asset should be priced.

F. What will happen to portfolio risk if we go on adding more and more stocks to a portfolio?

G. An investment company, has invested in equity shares of company. It's risk-free rate of return (Rf) = 10% , Expected total return (Rm) = 16%, Market sensitivity index (β) = 1.50, (of individual security) Calculate the expected rate of return on the investment in the security.

H. Fill in the blanks:
   (a) The optimal investment achieved at a point where the indifference curve is at a tangent to the ....
   (b) Whereas the CAPM is a .... model, the APT is a .... model instead of just a single beta value.

I. (a) List down the two factors that explains the return of any stock portfolio.
   (b) A "random walk" occurs when:
   (i) Stock price changes are random but predictable.
   (ii) Stock prices respond slowly to both new and old information.
   (iii) Future price changes are uncorrelated with past price changes.
   (iv) Past information is useful in predicting future prices.

J. Define Repo rate.

SECTION –B (ESSAY TYPE QUESTIONS)

(5x10=50 Marks)

1) Define the functioning of the securities market. Briefly explain the participants in the securities market. What are the distinctive features of National Stock Exchange and Bombay Stock Exchange?

2) Explain the various sources and types of risk in Investment Management. Also explain the various measures of risk and return by taking hypothetical figures.

3) Briefly explain the concept of the Efficient Market Hypothesis (EMH) and each of its three forms-weak, semi strong and strong-and briefly define the degree to which existing empirical evidence supports each of the three forms of the EMH.

4) Answer the following:
   (i) Two bonds have identical times to maturity and coupon rates. One is callable at 105, the other at 110. Which should have the higher yield to maturity? Why?