MAY 2011 **P/ID 37522/PBEF**

Time : Three hours Maximum : 80 marks

PART A — (5 × 5 = 25 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Distinguish between systematic risk and unsystematic risk.

2. Give a brief account of different types of securities.

3. How is the economic growth related to stock price?

4. What is point and figure chart, and how is it used.

5. Explain the term option and futures.

6. Explain the constraints in the formation of objectives.

7. Define Merkowitz diversification.

8. Explain the Sherpe index model.

PART B — (4 × 10 = 40 marks)

Answer any FOUR questions.

All questions carry equal marks.

9. "Industry life cycle exhibits the status of the industry and gives the clue to entry and exit for investors" elucidate.

10. Explain in detail the Dow theory and how is it used to determine the direction of stock market.

11. Discuss the results of the studies that support the semi-story form of EMH.

12. What is superfluous diversification? What problems frequently exist when a portfolio is diversified superfluously?

13. SJK buys a bond with four years to maturity. The bond has a coupon rate of 9 percent and is priced Rs. 100 in the market.

    (a) What is the duration of the bond?

    (b) What will be the percentage change in the price of the bond if the interest rate rises to 10 percent?

14. With the given details, evaluate the performances of the different fund using Sherpe, Treynor and Jenson performance evaluation techniques.

Funds	Return	Standard Deviation	Beta
A	2	20	0.98
B	12	18	0.97
C	8	22	1.17
D	9	24	1.22

Risk free rate of return is 4%.

PART C — (1 × 15 = 15 marks)

(Compulsory)

15. The following table provides information regarding the portfolio return and risk.

Portfolio	Expected Return E (R)	σ
1	10	4
2	12	7
3	13	5
4	16	12
5	20	14

(a) The treasury bill rate is 5 percent. Which portfolio is the best?

(b) Would it be possible to earn 12 percent return with σ of 4 percent?

(c) If σ is 12 percent what would be the expected return?
