MAY 2011 **P/ID 77522/PMEF**

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Emphasise the importance of security analysis.

2. 'Return is not the only criterion in the evaluation of fixed income securities'. Elucidate.

3. What legal restrictions may limit the amount of dividend to be paid?

4. Explain how the expected return and risk of risky securities are usually calculated.

5. Explain the objectives behind the evaluation of securities.

6. What are the functions of a clearing house of a futures exchange?

7. Why the people risk-averse?

8. "Formula plans aid the investor in overcoming her emotional involvement with the timing of purchase and sale of stock". Comment.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. Explain the different bases for the valuation of Securities.

10. What are the factors that have to be taken into account when pricing a new issue of shares?

11. Does an increase in a firm's growth rate of earnings always mean an increase in its intrinsic value? Explain.

12. Discuss why most technicians follow several technical rules and attempt to derive a consensus.

13. How do you characterise the nature of the securities markets? Which of the three forms of efficient market hypothesis do you think is valid? Why?

14. What are the underlying assumptions of the Black and Scholes option Pricing/Model and why are they needed?

15. Examine the impact of growth of the financial derivatives of the financial system.

16. What is a fair game? Will risk-averter investors/ risk-neutral investors/risk-preferring investors enter into a fair game?

PART C — (20 marks)

17. Case study :

Suppose that six portfolios experienced the following results during the 7 year period :

Portfolio	Average Annual Return	Standard Deviation	Correlation with market
A	18.6	27.0	.81
B	14.8	18.0	.65
C	15.1	8.0	.98
D	22.0	21.2	.75
E	–9.0	4.0	.45
F	26.5	19.3	.63
Market Risk	13.0	12.0	
Free Rate	9.0		

(a) Rank these portfolios using

(i) Sharpe's method, and

(ii) Treynor's method.

(b) Compare the ranking and explain the reasons behind the differences.