

MAY 2012

**P/ID 77522/
PMEF/PMBF2**

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. How securities are classified? Briefly explain their features.
2. Why fixed income securities are not popular with investors?
3. Distinguish risk and return of a firm with an illustration.
4. 'The stock market has a life of its own and the study of it rewards the investor'. Comment.
5. What are the objectives behind the evaluation of securities?
6. Make a comparative analysis of profit made out of purchase of stocks, bonds and options.
7. What are the advantages of professionally managed portfolio?
8. Explain the factors influencing investment decisions under uncertainty.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

All questions carry equal marks.

9. What do you mean by security analysis? Emphasise its significance.
10. Explain the factors influencing the evaluation of fixed income securities.
11. Explain the importance of industry analysis. Why should it follow the economic analysis?
12. How does debt bring about financial leverage in the earnings of common stock? What are the advantages and disadvantages of leverage from the point of view of equity holders?
13. Explain in detail the Dow theory and how is it used to determine the direction of stock market?
14. 'Speculators prefer stock options'. Discuss.
15. Distinguish between Treynor and Sharpe indices of portfolio performance. Which do you recommend? Why?
16. How is a portfolio managed? How is it revised?

PART C — (20 marks)

17. Case Study :

Mahima wants to invest in the one of the three companies given below. She is very particular about the current financial position of the company. She believes that no company should be considered for investment unless it has a good current financial position. You are asked to examine the following data and choose a company for her.

Current financial analysis of X, Y, Z companies

Companies	X		Y		Z	
Year	1988	1999	1988	1999	1988	1999
Current ratio	2.1	2.5	2.0	2.26	2.71	2.53
Acid test ratio	1.27	1.42	1.38	1.50	1.90	1.76
Composition of current assets %						
Cash	13	13	34	29	34	34
Receivables	38	36	24	26	33	32
Inventory	45	47	33	35	31	31
Other current assets	4	4	9	10	2	3
Net sales to inventory	3.90	3.77	4.45	4.23	5.65	5.25
Net sales to working capital	3.29	2.97	3.10	2.81	2.87	2.85