

B.COM (PROG.) 2019

SEM: IV

SKILL ENHANCEMENT COURSE

Duration: 3 Hours

Maximum Marks: 75

Q.1. (a) Discuss the process to be followed by companies in raising money through Initial Public Offering. (8)

Ans. : See para 1.5

(b) Distinguish between Bond and Equity as investment alternative. (7)

Ans. : See para 1.5

OR

(a) Stock exchange plays an indispensable role in Indian economy: Comment. (8)

Ans. : See para 2.2

(b) What is speculation? Point out difference between investment and speculation with example. (7)

Ans. : See para 1.3

Q.2. (a) The return on securities X and Y under situations are given below:

Probability	Security X	Security Y
0.25	15	20
0.40	18	22
0.35	20	25

Find return and risk associated with the security. (8)

Ans.:

P_i	R_x	R_y	$P_i R_x$	$P_i R_y$	$P_i (R_x - R_x)^2$	$P_i (R_y - R_y)^2$
0.25	15	20	3.75	5	2.18	1.63
0.40	18	22	7.2	8.8	0.001	0.121

P_i	R_x	R_y	$P_i R_x$	$P_i R_y$	$P_i(R_x - R_x)^2$	$P_i(R_y - R_y)^2$
0.35	20	25	7	8.75	1.47	2.1
			17.95	22.55	3.651	3.851

Expected Return

$$E(R_x) = \sum P_i R_x = 17.95\%$$

$$E(R_y) = \sum P_i R_y = 22.55\%$$

Risk

$$\sigma_x = \sqrt{\sum P_i (R_x - \bar{R}_x)^2} = \sqrt{3.651} = 1.91\%$$

$$\sigma_y = \sqrt{\sum P_i (R_y - \bar{R}_y)^2} = \sqrt{3.851} = 1.96\%$$

Since the expected return of the two securities is not equal, we cannot use standard deviation to compare their risk. We would rather use a relative measure of risk, i.e., Coefficient of Variation to draw meaningful comparisons.

Coefficient of Variation

$$C.V._x = \frac{1.91}{17.95} = 0.106$$

$$C.V._y = \frac{1.96}{22.55} = 0.087$$

Hence Security Y is preferred as it has lower Coefficient of variation than security X. It has lower risk per unit of return generated. (7)

(b) Discuss Candle and Stick Chart. (7)

Ans. : See para 5.3 (iv)

OR

(a) Define risk. Distinguish between Systematic and Unsystematic risk. (7)

Ans. : See para 1.8

(b) The following particulars related to Mutual Fund are given to you: (8)

Particulars	Amount (in Rupees)
Management Advisory Fees	275 lakh
Administration Expenses (including Fund Manager remuneration)	350 lakh
Publicity and documentation	80 lakh
Opening NAV	108 crore
Closing NAV	170 crore

Ascertain the expense ratio.

Ans.: Total expenses = Management Advisory Fees + Administration Expenses + Publicity and Documentation

=Rs. 275 lakhs + Rs. 350 lakhs + Rs. 80 lakhs = Rs. 705 lakhs or 7.05 crores

Average assets = (Opening NAV + Closing NAV)/2

= (Rs.108 crore + Rs.170 crore)/2 =Rs.139 crore

$$\text{Expense Ratio} = \frac{\text{Expenses}}{\text{Average assets under management}} \times 100$$

$$= \frac{7.05 \text{ crore}}{139 \text{ crore}} \times 100 = 5.07\%$$

Q.3. (a) What is Exit Load? How does it affect return to the investors? (7)

Ans. : See paras 7.2, 7.4 (iv)

(b) Following information is available in respect of a Mutual Fund: (8)

Particulars	Amount (in Rupees)
6% Debentures	10,00,000
9% Government Bonds	9,00,000
Equity Capital (50,000 equity shares of Rs. 100 each)	50,00,000
Total	69,00,000

During the year, the mutual fund received dividends of Rs. 10,00,000 on equity shares, interest on debentures and bonds were received. Operating expenses incurred during the year were Rs. 6,00,000. What would be the NAV of the mutual fund?

Ans.: **Cash balance at the end of the period**

Dividends received	10,00,000
Interest income:	
6% Government Bonds	60,000
9% Debentures	81,000
Total	11,41,000
Less: operating expenses	6,00,000
Closing cash balance	5,41,000

Calculation of NAV

Closing cash balance	Rs. 5,41,000
50,000 equity shares of Rs. 100 each	Rs. 50,00,000
6% Debentures	Rs. 10,00,000
9% Government Bonds	Rs. 9,00,000
Total assets (NAV)	Rs. 74,41,000
No. of units (assuming)	10,00,000
NAV per unit	Rs. 7.441 per unit

OR

What is CRISIL mutual fund ranking? Discuss various parameters considered for ranking along with suitable example. (15)

Ans. : See paras 7.7, 7.7.1

Q.4. What do you mean by futures? Which products are available for trading in futures in India? Explain in brief how valuation of futures is done. (15)

Ans. : See paras 8.4, 8.4.2, 10.2, 11.3

OR

(a) What are commodity derivatives? Explain with examples. (7)

Ans. : See paras 10.2, 10.4, 10.5

(b) Write a note on 'types of options'. (8)

Ans. : See para 8.5.1

Q.5. Write short notes on any *three* of the following: (15)

i. NSE

ii. Limit Order

iii. P/E ratio

iv. Open ended mutual funds

Ans. : See paras 2.3 (ii), 3.4.2, 4.3.1 (c), 6.6 part 1

OR

What do you mean by analysis of financial statement of a company? Explain the tools or techniques employed for analysing financial statements of a company. (15)

Ans. : See paras 4.2, 4.3, 4.3.1, 4.3.3, 4.3.4, 4.3.5