

QUESTION BANK

B.COM (HONS.)

SEMESTER-6, FYUP

PAPER-15: SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

- Q.1. State investment decision process. What factors should an investor consider while making investment decisions?
- Q.2. Discuss the developments and emerging trends in Indian Capital Market after the constitutions of SEBI in India.
- Q.3. what do you mean by insider trading? Who is an insider as per SEBI regulations?
- Q.4. Define risk. What are the various sources of risk in an investment? Explain.
- Q.5. What is systematic risk? How is it different from unsystematic risk?
- Q.6. Market interest rates and debenture prices are inversely related. Comment.
- Q.7. What do you mean by intrinsic value? How is it determined?
- Q.8. Explain technical analysis. How is it different from fundamental analysis?
- Q.9. Explain dow theory. Discuss its relevance in analysis of securities.
- Q.10. What is portfolio? How is the portfolio return and risk calculated for a 2 security portfolio?
- Q.11. What do you mean by diversification? Does it reduce the risk of an investment? Explain with an example.
- Q.12. What is an efficient portfolio in the context of Harry Markowitz model. Explain the role of investors preferences in identifying optimal portfolio?
- Q.13. Explain various types of equity schemes of mutual funds.
- Q.14. What are financial derivatives? What are the major participants in the derivatives market? How would you distinguish between futures and options?
- Q.15. Differentiate between forwards and futures.
- Q.16. A preference share is
- (a) Pays fixed dividend
 - (b) A marketable security
 - (c) A debt security
 - (d) Both a and b
- All of the above

Q.17 which one of the following statements best describes corporate bonds?

- (a) Bond investors are creditors of the corporation.
- (b) The majority of bonds make coupon interest payments once per annum.
- (c) Both *a* and *b* are true.
- (d) None of the above are true.

Q.18 which of the following bond quality ratings applies to default-free bonds?

- (a) AAA.
- (b) AA.
- (c) Both *b* and *a* are default-free.
- (d) None of the above is default-free.

Q.19. The *retention rate* equals 100 percent less the percent of the corporation's earnings paid out for

- A. cash dividends.
- B. stock dividends
- c. Rights shares
- d. Debenture bonus
- e. Both a and d

Q. 20 you are thinking of acquiring some shares of PK Ltd. The rates of return expectations are as follows:

Possible rate of return	Probability
5%	0.20
10%	0.40
8%	0.10
11%	0.30

Expected return on the investment shall be

- A. 91%
- B. 9.1%
- C. 0.91%
- D. 8.1%

Q.6 If the current share price is S and the exercise price is X , the intrinsic value of the put option is _____.

- a) $\text{Max}(O, S-X)$
- b) $\text{Max}(O, X-S)$
- c) $\text{Min}(O, S-X)$
- d) $\text{Min}(O, X-S)$

Q.21 The CAPM is a model that

- a) Determines the geometric return of a security.
- b) Determines time-weighted return
- c) Explain return in terms of risk.
- d) Explains systematic risk

Q.22 GM is an AAA rated issuer of Corporate Bonds in the International Debt markets. The issue price of a typical GM corporate bond is affected by all the following EXCEPT the _____.

- a) Face value, coupon rate, and maturity of the bond.
- b) Firm's required return on debt.
- c) Percentage of debt in the firm's capital structure.
- d) Required return on the firm's competitors' bonds.

Q. 23 A non-dividend paying stock has a current price of Rs. 10. What will be the future's price if the risk free rate is 9 percent and the maturity of the futures contract is 1 month?

- A. 15.115
- B. 16.115
- C. 17.115
- D. 18.115
- E. None of the above

Q. 24 the best method of valuing a share is:

- a) Book value based on net tangible assets.
- b) Liquidation value based on the proceeds of liquidation of the company.
- c) Present value of all the dividends to be received from holding that share.
- d) Apply the P / E ratio to expected earnings per share.

Q.25 Public Issue through the book building process is better than I.P.O at fixed price because _____.

- a) High fixed price will result in under subscription leading to loss to the investor.
- b) It helps the issuer to ascertain the exact price at which the investor is willing to subscribe.
- c) Low fixed price will result in over subscription leading to loss to the issuer.
- d) All of the above

Q.26 Equal amount of investment is made in portfolio consisting of securities X and Y. Standard deviation of X is 12.43%. ; Standard deviation of Y is 16.54%. ; Correlation coefficient is 0.82. ; The interactive risk of the portfolio, measured by covariance is

- a) 145.64
- b) 156.22
- c) 168.59
- d) 172.56

Q.27 The risk free return of Security A is 8%. In addition to it, you expect that the return on market would be 14%. The expected return of Security A with beta of 0.80 is _____.

- a) 12.2%.
- b) 15.4%.
- c) 12.8%
- d) 18.2%.

Q. 28 when stocks with the same expected return are combined into a portfolio, the expected return of the portfolio is:

- a. Less than the average expected return value of the stocks
- b. Greater than the average expected return of the stocks
- c. Equal to the average expected return of the stocks
- d. Impossible to predict

Q.29 Maximum diversification is obtained by combining two stocks with a correlation coefficient equal to:

- a. +1.0
- b. 0.0
- c. -1.0
- d. + 0.5

Q.30 If a new issue was offered to the public at 15 times earnings but the market was pricing similar shares at 10 Times, this would be _____.

- a) Appalling proposition to the investor
- b) The investor cannot take a position
- c) An example of low gearing
- d) Bargain not to be missed

Q.31 Mr. X buys SATYAM COMPUTER October Rs. 350 call options for Rs. 15. The current share price is Rs. 365. The break-even share price, ignoring transaction costs is Rs. _____.

- a) 350
- b) 360
- c) 365
- d) 380
- d) None of the above

Q.32 Investor complaints relating to the following Capital Market issues will not be entertained by SEBI:

- a) A company declaring no dividend on equity for the fourth consecutive year.
- b) A company has declared dividend but not paid the same after six months of declaration.
- c) A company not paying the redemption proceeds on debentures issued by the company, one year after maturity date.
- d) None of the above cases.

Q.33 If a bond is selling at a discount :

- a) It is an attractive investment
- b) Its coupon rate is below market rate
- c) Its current yields is lower than the coupon rate
- d) Its realized compound yield will be less than the yields to maturity

Q.34 A portfolio manager can hedge a share portfolio by _____.

- a) Buying call options
- b) buying put options
- c) Buying index options

d) Selling put options

Q.35 Which of the following is NOT a characteristic of a balance fund?

- a) It is less risky than growth funds
- b) It is more risky than income funds
- c) It must invest in both equity and bonds in equal amount
- d) It provides both growth and income objectives
- e) a, b and d

Q.36 Beta is a measure of:

- a) Geometric average return
- b) Holding period return
- c) Systematic risk
- d) Market risk
- e) both c and d

Q.37 When the spread between the one-month and two-month futures contracts narrows, you can profit by:

1. Buying the near-month contract and selling the far-month one
2. Selling the near-month contract and buying the far month one
3. Both the above
4. None of the above

Q.38 Which of the following is not true about forward contracts?

- a) A contract between two parties
- b) A standardized contract
- c) Settlement on future date
- d) Settlement at today's agreed price

Q.39 A stock currently sells at 110. The put option of the stock at a strike price of Rs.120 costs Rs. 15 . Calculate the Intrinsic Value and Time Value.

- a) Rs.10 and Rs.5
- b) Rs.15 and Rs.5
- c) Rs.20 and Rs.10
- d) Rs.-5and Rs.-10

Q.40 Naked position in the derivatives market refers to

- a. No derivative instruments in portfolio
- b. Having the securities and equivalent derivative instruments
- c. Holding securities and buying the call
- d. Only futures open position

Q.41 The concept of tracking error is applied to measure performance in case of

- a. Tax savings scheme
- b. Real Estate Funds

- c. Equity Funds
- d. Index funds

Q.42 Which of the following statements is correct

- a. Cost of acquisition of bonus shares is nil.
- b. Cost of acquisition of bonus shares is equal to the market value of share on the date of allotment.
- c. Expenditure incurred on transfer of shares is excluded in full value consideration computation.
- d. None of the above

Q.43 Potential profits of the straddle buyer is

- a. limited to the premium paid
- b. difference between premium on options written and options bought
- c. unlimited when there is a substantial movement in the stock prices.
- d. None of the above

Q.44 Interest-rate risk is defined by which of the following statements?

- (a) Fluctuations in the coupon interest rates from one bond issue to the next
- (b) Fluctuations in the market prices of bonds as their prices move inversely to the prevailing market interest rates
- (c) The variability of returns as a result of fluctuations in market interest rates
- (d) Both a and b
- (e) All of the above

Q.45 RAMA PAPER pays a dividend of Rs.3.85 per share which is growing at a 7 percent rate per year and is expected to grow at the same rate in future. Its required rate of return is 14.5% determine its share value.

- (a) 52.48
- (b) 49.25
- (c) 54.93
- (d) 55.75
- (e) 47.26

Q.46 GIPCL is raising funds through a bond issuance to fund a new power plant at Noida, UP. They are issuing Two Year maturity, Zero -coupon bond with face value of Rs 1000 and yield of 4%. What price would you pay for this GIPCL Zero-coupon bond today?

- a) Rs. 920.00.
- b) Rs. 924.56.
- c) Rs. 925.95.
- d) Rs. 960.00.

Q.47 Equal amount of investment is made in portfolio consisting of securities X and Y. Standard deviation of X is 12.43%. ; Standard deviation of Y is 16.54%. ; Correlation coefficient is 0.82. ; What shall be the covariance

- a) 145.64
- b) 156.22

- c) 168.59
- d) 172.56

Q.48 This year subros Ltd Will pay a dividend on its stock of Rs. 6 per share . The following year the dividend is expected to be the same, increasing to Rs. 7 the year after. From that point on, the dividend is expected to grow at 4% per year indefinitely. Stocks with similar risk are currently priced to provide a 10% expected Return. What is the intrinsic value of subros . Ltd.

- A . RS. 98.05
- B .RS.180.34
- C .RS 106.83
- D none of the above

Q.49 Suppose the Nifty spot is at 1000 and the two –month futures are at 1040. Suppose the transactions costs involved are 0.4% and dividends over the two months are 0. Then what is the rate of return in loaning money to the market?

- 1. 1.8% per month.
- 2. 1.25% per month.
- 3. 1.75% per month.
- 4. 1% per month.
- 5. 2% per month.

Q.50 Equal amount of investment is made in portfolio consisting of securities X and Y. Standard deviation of X is 12.43%. ; Standard deviation of Y is 16.54%. ; Correlation coefficient is 0.82. ; The interactive risk of the portfolio, measured by covariance is

- a) 145.64
- b) 156.22
- c) 168.59
- d) 172.56

Q.51 Calculate the yield value of a treasury bill with a face value of Rs.1, 50,000. It has 125 days to maturity and the market value today is Rs.1, 44,231.

- a. 9.85 %
- b. 12.1%
- c. 11.7%
- d. 10.5%

Q.52 Use the opt ion information given in the following table to answer the question below. Ignore taxes and transaction costs.

Share	Current price	Exercise price	Time to Maturity			
			Call Premium		Put Premium	
			3 months	6 months	3 months	6 months
A	52	50	3	4	0.35	1.05
B	40	45	1	1.25	5.5	6.00
C	35	30	6	6.3	0.45	0.65

Each contract is equal to 100 shares. .

If you purchase one 3 -month call contract on A, what profit or loss will you make at the maturity date if the price of A at that time is Rs.57?

- (a) Rs.200
- (b) Rs.400
- (c) Rs.460
- (d) Rs.500
- (e) Rs.560

Q.53 A company has current earnings per share of Rs.6. Assume a dividend -payout ratio of 55 percent. Earnings grow at a rate of 8.5 percent per year. If the required rate of return is 15 percent, what is its current value?

- a) Rs.51.33
- b) Rs.55.08
- c) Rs.57.02
- d) Rs.52.05
- e) Rs.50.75

Q.54 A corporation had a total debt to total asset ratio of .4, total debt of Rs.200,000, and net income of Rs.30, 000.Determine the corporation's return on equity.

- (a) 8 percent
- (b) 9 percent
- (c) 10 percent
- (d) 12 percent
- (e) 14 percent

Q.55 The following information is available

	Stock A	Stock B
Expected return	16%	12%
Standard deviation	15%	8%
Co-efficient of correlation	0.60	

What is the covariance between stock A and B ?

- (A) 72
- (B) 78
- (C) 14.4
- (D) 15.34
- (E) None of the above

Q.56 Consider two stocks, P & Q

Stock	Expected Return	Standard deviation
P	16%	25%
Q	18%	30%

The returns on the two stocks are perfectly negatively correlated.

What is the expected return of a portfolio constructed to derive the standard of portfolio return to zero?

- (A) 54.5%
- (B) 16.91%
- (C) 18.21%
- (D) 17%
- (E) None of the above

Q.57 the expected returns and standard deviations of stocks A and B are:

Stock	Expected Return	Standard Deviation
A	13%	10%
B	5	18

Suresh buys Rs. 20,000 of stock A and sells short Rs. 10,000 of stock B, using all the proceeds to buy more of stock A. The correlation between the two securities is .25. What are the expected return and standard deviation of Suresh's portfolio?

- (A) 17% and 15.4%
- (B) 18% and 15.4%
- (C) 15.4% and 17%
- (D) 17% and 18%
- (E) None of the above

Q.58 NSE's screen based trading system matches orders in the----- priority basis.

- a) Time/price
- b) Price/time
- c) Price/quantity
- d) none of the above

Q.59 A mining company's reserves are fast depleting and its sales are declining in recent years. Its Cost of mining is on the increase. Because of these reasons, the company's earnings

are declining and dividends are expected to fall constantly @5% per annum. Current dividend is 5 and the discount rate is 15%.

What is the value of the share?

- a. 20
- b. 21.25
- c. 23.75
- d. 24.25

Q.60 The call option strike price on a share is Rs. 500 and the current share price is Rs. 550. The call option premium is Rs. 60. The time value of the option is:

- a. 60
- b. 10
- c. 30
- d. 15

Q.61 A Rs.100 par value bond having 10 % coupon rate will mature after 7 years. Find the value of the bond if the discount rate is 8 %.

- a. 109.85
- b. 111.41
- c. 108.75
- d. 110.60

Q.62 The price of Stellar Ltd. is currently Rs.40. The dividend next year is expected to be Rs.4.00. Required return on the stock is 12%. Find the expected growth rate under the Constant Growth model.

- a. 2.00 %
- b. 2.25 %
- c. 1.90 %
- d. 2.75 %
- e. none of the above

Q.63 Data on two stocks is given for 2 different scenarios:

Market Return	Infocomm Ltd.	FMCG Ltd.
5 %	3%	7%
15 %	25 %	12 %

Find Beta of both stocks

- a. 1.8, 0.60
- b. 25, 0.75
- c. 1.5, 0.25
- d. 2.2, 0.5

Q. 64 Data on a mutual fund is given:

Fund Name	Mean Return	Std. Dev.	Beta
A	10 %	25 %	0.75
Market Index	15%	20%	1.00

The risk free rate is 9 %; Calculate Treynor, Sharpe and Jensen measures of fund A.

- 1.05, 0.10, 4.25
- 1.33, 0.04, -4.25
- 1.10, 0.15, -3.75
- 1.46, 0.09, 3.75
- none of the above

What is capital asset pricing model (CAPM). Explain the model with the help of examples?

Q.65 is it possible to completely eliminate the risk of the portfolio of securities. Explain the basic requirements to achieve the complete elimination of risk.

Q.66 “capital markets are not only the barometer of the economic growth but are also extremely important for the the growth of an economy”. Do you agree with the statement? Explain in the light of the growth in the Indian capital markets.

Q.67 distinguish between any TWO of the following the following

- Open interest and open position
- Yield to market (YTM) and yield to call (YTC)
- Security market line (SML) and capital market line (CML)
- Open ended and close ended fund
- Real and Nominal return.

Q.68 explains the concept of yield curve? Can we use yield curve for prediction of future interest rates?

Q.69 writes short notes on ANY TWO of the following

- Stop loss order
- straddle
- Duration
- Beta
- Greenshoe option
- Notation

Q.70 Interest rate changes bring about an immediate impact on the bond prices as well as stock prices. Explain the statement in the light of the recent increase in CRR rate by RBI.

