MMS-III (Finance). 20-10-2012

PMSA 03

Portfolio Management & Security Analysis.

Roll No. **Total no. of printed pages: 2**

Total no. of questions: 6 **Maximum marks: 60**

Duration: 3 hours

Note: Answer any five questions. All questions carry equal marks.

Q. 1.

Define risk and differentiate between systematic and unsystematic risk.

Q.2

We all know that investors have widely diverse opinions about the future course of the economy and earnings forecasts for various industries and companies. How then it is possible for all these investors to arrive at an equilibrium price for any particular security.

Q. 3.

An investor is considering an investment in ABC Company. The investor has estimated the following probability distribution of returns for ABC stock:

Return	Probability
-10%	0.10
0	0.25
10%	0.40
20%	0.20
30%	0.05

Based on investor's estimates, calculate the expected return and standard deviation of ABC Company's stock.

Q. 4.

Ramesh Wagle owns a portfolio composed of three securities with the following characteristics:

Security	Beta	Standard error term	Proportion
A	1.20	0.05	0.30
B	1.05	0.08	0.50
C	0.90	0.02	0.20

If the standard deviation of the market index is 18%, what is the total risk of Ramesh's portfolio?

Q. 5.

The beta coefficient of XYZ Company is 1.2. The company is maintaining a 6% rate of growth. The last dividend paid was Rs.3 per share. The risk free rate of return and the return on market portfolio are 10% and 15% respectively. The current market price of the company is Rs. 20. What should be the fair price of the share?

Q. 6.

Write short notes on any three:

A. Capital market line

B. Risk free lending and borrowing

C. Forms of efficient market

D. Steps in portfolio management process