



Institute of Management
JK Lakshmipat University, Jaipur
END TERM EXAMINATION - 2018

B.Com H (V sem.) Fundamentals of Investment

Time: 2 Hours

Subject Code: FN 15

MM: 40Marks

Instructions: All questions are compulsory

Section – A

1. (a) Holding two stocks are better than holding one stock. Under the light of this sentence, explain Markowitz portfolio theory. Does continuous addition in number of securities reduce total risk up to zero of a portfolio? Explain with the help of necessary diagram. (2 Marks)

(b)

	Stock P	Stock Q
Expected Return	20	30
Expected Variance	16	25
Covariance PQ	20	

Is there advantage of holding a combination of stock P and Q. Support your answer with logical evidence. (2 Marks)

2. (a) Capital Asset Pricing Model is an improvement over Markowitz Portfolio theory. Are you satisfied with this comment? Support your answer with the strong evidence. (2 Marks)

(b) Suppose you are asset manager of Horiba Mutual Fund Ltd. In an investment avenue you find that beta (β) of that security is very higher than the risk premium offered by it. Would you like to invest in particular security? On what grounds you will accept or reject particular security, explain? (2 Marks)

3. Write Note On any 3:

(3*2 Marks)

- Capital Market line and Security Market Line
- APT Model
- Currency Swap
- Option

4. What do you understand by financial derivatives? What you meant by 'Future' and 'Forward' forms of derivatives, explain both with hypothetical examples. Under the tremendous financial environment, compare the above-said forms on various grounds and conclude which one holds validity in present financial scenario. (5) Marks
5. What do you understand by Bonds? How a plain Vanilla bond is different from a zero coupon bond? What kind of risks can be associated with Bonds? Explain any four in detail. (5 Marks)

Section – B Case Study

Swami Narayanmurthy is the CEO of Murgan group; which is operating, in three diversified areas. Murgan group has three SBUs (Strategic Business Units) named Company A, B and C. Naranyanmurthy wants to maximize shareholder's wealth in each company of his group. Due to peer-pressure, Murgan group is thinking to distribute dividends to shareholders of all three companies. Cost of capital, rate of return and other details are provided by the finance manager of Murgan group. Murgan group wants to declare dividend distribution for different companies. Three dividend payout ratios are suggested by managers i.e. (i) 40%, (ii) 60% and (iii) 90%. Other details are as follows:

A Ltd	B Ltd.	C Ltd.
Rate of Return= 15%	Rate of Return= 10%	Rate of Return= 8%
Cost of Capital= 10%	Cost of Capital= 10%	Cost of Capital= 10%
E = 20 Rs.	E = 20 Rs.	E = 20 Rs.

Questions:

- a. Using all three dividend payout ratio, advice which one is suitable for which company, keeping in mind Gordon's formula of Equity valuation and provide logical evidence for your choice. (3+3+3+1 Marks)
- b. Rather than being CEO; if, Swami Narayanmurthy would be an investor, what another remaining measures of fundamental analysis he could use other than equity analysis (i.e. part of company analysis)? Explain each one in short. (3+3 Marks)