



Institute of Management
JK Lakshmipat University, Jaipur
MID TERM EXAMINATION II -2019

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

Time: 1.5 Hours

Subject Code: FN 15

MM: 20Marks

Instructions:

- I. All questions are compulsory.
- II. There are varied patterns of the question. Read the question very carefully.
- III. Question 1 in section A carries half marks only for each.

Section A

1. Identify True/False statements or fill in the blanks:

- a) Portfolio construction is done to eliminate systematic risk of securities.
- b) Return in form of dividend and capital gain or loss at the time of sale of shares is known as holding period return.
- c) The actually earned return in the form of dividends, interest and capital gain is known as ex-ante return.
- d) The risk of an efficient portfolio is always zero.
- e) A prudent investor demands lower risk premium for higher risk.
- f) Evaluation of an investment proposal involves trade-off between risk and return.
- g) Primary objective of investing into combination of securities is -----.
- h) ----- risk can be eliminated by investing in a large portfolio of securities.

Section B

2. (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)

3. A had invested in equity of TCS of Rs. 800 with a dividend payment of Rs. 150 and sold it for Rs. 1,000. (i) What is his holding period return, and (ii) if the Share is sold for Rs. 750 after receiving Rs. 150 as dividend payment, then what is his holding period return. (2 Marks)

Section-C

Keshubhai is considering the purchase of three securities Shree cement, Reliance power and BHEL for the next year. The returns of the securities depend on next year's state of stock market. The estimated rates of return are given below:

State of Market	Probability	Rate of Return		
		Shree Cement	Reliance Power	BHEL
Recession	.25	10%	9%	14%
Normal	.50	14%	13%	12%
Boom	.25	16%	18%	10%

If, Keshubhai wishes to invest one third in each security, do you think proposed portfolio will fetch benefit to him in terms of portfolio risk & return. Considering yourself as a wealth manager what you would recommend to Keshubhai? (10 Marks)