**C 21040**

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## SIXTH SEMESTER B.Com. DEGREE EXAMINATION, MARCH 2017

(CUCBCSS—UG)

### BCM 6B 15—FUNDAMENTALS OF INVESTMENT

Time : Three Hours                                                                           Maximum : 80 Marks

*Answers may be written* **either** *in English* **or** *in Malayalam.*

### Part I

*Answer* **all** *questions.*

*Each question carries 1 mark.*

(A)  Multiple Choice Questions :

1  Sacrifice of certain present value for some uncertain future values is called :

(A)  Investment.                                      (B)  Savings.

(C)  Inflation.                                        (D)  Business Risk.

2  'The Intelligent Investor' is written by :

(A)  Anthony Saunders.                             (B)  Philip Kotler.

(C)  Benjamin Graham.                              (D)  Henry Fayol.

3  An investment avenue wherein the investor gets predictable returns at set intervals of time is called :

(A)  Fixed Income Securities.                       (B)  Equity Shares.

(C)  Mutual Funds.                                   (D)  None of the above.

4  Measurement of systematic risk is :

(A)  Beta.                                            (B)  Standard Deviation.

(C)  Variance.                                        (D)  Nifty.

5  A grade given to bonds that indicates their :

(A)  Security.                                        (B)  Maturity.

(C)  Interest Rate.                                   (D)  Credit Quality.

(B)  Fill in the blanks :

6  The current yield on a bond is the annual interest due on it divided by its —————.

7  CPI-IW stands for —————.

**Turn over**

8 ———— implies that all known information is immediately discounted and reflected in share prices.

9 A ———— is a collection of securities.

10 Indian money market is regulated by ———— .

(10 × 1 = 10 marks)

## Part II

*Answer any* **eight** *questions.*
*Each question carries 2 marks.*

11 What do you mean by business risk ?

12 What do you mean by financial investment ?

13 What is the return on a stock according to the security market line if the risk free rate is 6%, the return on the market is 10%, and the stock's beta is 1.5 ?

14 An investor is considering the purchase of the following debenture :

Maturity—3 years, Coupon rate —11%, Par Value Rs. 100

If the investor requires a YTM of 13% on debentures of equivalent risk and maturity, what does he believe is a fair market price ?

15 Who are the parties involved in a bond indenture ?

16 What do you mean by bar chart ?

17 What is weak form of efficiency ?

18 What are the commonly used financial instruments in derivative markets ?

19 What do you mean by portfolio analysis ?

20 What do you mean by insider trading ?

(8 × 2 = 16 marks)

## Part III

*Answer any* **six** *questions.*
*Each question carries 4 marks.*

21 Narendran bought 100 shares of Ajanta Enterprises at Rs. 100 per share. He held the shares for 3 years and sold at Rs. 160 per share. The company paid Rs. 2.50 dividend per share in each of the three years. What total return did Narendran earn from his investment ?

22 Write a note on Dow theory.

23 Mr. X has invested in XYZ Chemicals. The capitalization rate of the company is 15% and the current dividend is Rs. 2 per share. Calculate the value of the company's equity share if the company is slowly sinking with an annual decline rate of 5% in the dividend.

24 Discuss Efficient Market Hypothesis.

25 Firms A, B and C are similar. Firm A is the most progressive and trades at a P/E ratio of 18. Firm B is less progressive, is not publicly traded, and has EPS of Rs. 1.20. Firm C is the least progressive and trades at a P/E ratio of 15. What is the intrinsic value of firm B as per P/E method ?

26 What are the basic principles of technical analysis ?

27 Explain the features of forward contracts.

28 Discuss the functions of SEBI.

(6 × 4 = 24 marks)

## Part IV

*Answer any* **two** *questions.*
*Each question carries 15 marks.*

29 Explain the features of an investment programme.

30 A stock that pays no dividends is currently selling at Rs. 100. The possible prices for which the stock might sell at the end of one year, with associated probabilities are :

| End-of-year Price (Rs.) | Probability |
| --- | --- |
| 90 | 0.1 |
| 100 | 0.2 |
| 110 | 0.4 |
| 120 | 0.2 |
| 130 | 0.1 |

(a) Calculate the expected rate of return by year-end.

(b) Calculate the standard deviation of the expected rate of return.

31 Discuss the procedure of industry analysis.

(2 × 15 = 30 marks)