Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–III • EXAMINATION – WINTER 2013

Subject Code: 830203 **Date: 21-12-2013**

Subject Name: Security Analysis & Portfolio Management (SAPM)

Time: 14:30 pm – 17:30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** Discuss the sources of systematic risk for security investment with examples. **07**

(b) Discuss the concept of Buying on Margin with example. **07**

Q.2 **(a)** A stock earns the following returns over a five year period: R_1 = 10 %, R_2 = 16%, R_3 = 24 %, R_4 = - 2 %, R_5 = 12 %, R_6 = 15%. Calculate its expected return and Standard deviation. **07**

(b) Despite its limitations, Why CAPM is widely used? **07**

OR

(b) Explain the relationship between covariance and correlation **07**

Q.3 **(a)** The probability distribution of the rate of return on a stock is given below: **07**

State of the Economy	*Probability of Occurrence*	*Rate of Return*
Boom	0.20	30 %
Normal	0.50	18 %
Recession	0.30	9 %

What is expected return and the standard deviation of return?

(b) Explain the single index model proposed by William Sharpe. **07**

OR

Q.3 **(a)** The following information is available. **07**

	Stock A	Stock B
Expected return	12%	26 %
Standard deviation	15%	21 %
Coefficient of correlation	0.30	

1. What is the covariance between stocks *A* and *B*?
2. What is the expected return and risk of a portfolio in which *A* and *B* are weighted 3:7?

(b) Discuss how and why diversification reduces risk? **07**

Q.4 **(a)** Discuss any five key economic variables commonly used to describe the state of economy. **07**

(b) The share of a certain stock paid a dividend of Rs.3.00 last year. The dividend is expected to grow at a constant rate of 8 percent in the future. The required rate of return on this stock is considered to be 15 percent. How much should this stock sell for now? **07**

OR

Q.4 **(a)** Describe the Industry life cycle. What are the implications for the investors? **07**

(b) XYZ Limited is expected to give a dividend of Rs.5 next year and the same would grow by 12 percent per year forever. XYZ pays out 60 percent of its earnings. The required rate of return on XYZ's stock is 15 percent. What is the PVGO? **07**

Q.5	**(a)**	What is Bond? Explain the Major features of Bonds.	**07**
	(b)	A Rs.1000 par value bond, bearing a coupon rate of 12 percent will mature after 6 years. What is the value of the bond, if the discount rate is 16 percent?	**07**

OR

Q.5	**(a)**	What is ROE? Explain the decomposition of ROE in detail.	**07**
	(b)	Explain Bar Chart and Line chart used in technical Ananlysis.	**07**

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