

Roll No



**PRESIDENCY UNIVERSITY
BENGALURU**

SET A

**SCHOOL OF MANAGEMENT
MID TERM EXAMINATION - NOV 2023**

Semester : Semester III - 2022

Course Code : MBA3005

Course Name : Sem III - MBA3005 - Investment Management

Program : MBA

Date : 3-NOV-2023

Time : 10:00AM - 11:30AM

Max Marks : 50

Weightage : 25%

Instructions:

- (i) Read all questions carefully and answer accordingly.
- (ii) Question paper consists of 3 parts.
- (iii) Scientific and non-programmable calculator are permitted.
- (iv) Do not write any information on the question paper other than Roll Number.

PART A

ANSWER ALL THE QUESTIONS

(5 X 2 = 10M)

1. Differentiate between Nominal Rate of Return and Real Rate of Return.
(CO1) [Knowledge]
2. Give any four differences between Market risk and Business risk.
(CO1) [Knowledge]
3. It is generally said that in order to earn higher return, investor should take higher risk. However, taking higher risk always does not provide higher return. Justify the statement with a suitable example.
(CO1,CO2) [Knowledge]
4. The standard deviation of the market portfolio is 20 percent, its expected return is 14 percent, and the risk-free asset is 9 percent. What return can an investor expect to earn on an investment of 50 percent of his wealth in the risk-free asset and 50 percent of his wealth in the market portfolio? what is the 50-50 portfolio's risk?
(CO2) [Knowledge]
5. Does diversification reduce the risk of investment? Explain with suitable example.
(CO2) [Knowledge]

PART B

ANSWER ALL THE QUESTIONS

(3 X 6 = 18M)

6. How do the following investments compare in terms of return, risk, marketability/liquidity, and tax shelter: equity shares, bank deposits, public provident fund, residential house, and gold.
(CO2,CO1) [Comprehension]

7. An Investor has two investment options. The details of the investments are given below:

Investment	Annual Returns	Compounding of Returns	Tax on Income
Tax Free Bond	9.5%	Quarterly	NIL
Taxable Bond	12.00%	Annual	20%

If the expected Inflation in the economy is 6% pa, which investment would you prefer and why?

(CO1,CO2) [Comprehension]

8. (a) Mr. Ramacharan invested Rs 75 Lacs in a fixed deposit and is set to earn a return of 8.5% pa, compounded quarterly. If the expected inflation rate in the economy is 6% pa and his income tax rate is 10%, what will be his real after tax percentage rate of return on the investment? (3 marks)

(b) Are the Inflation Rate and Interest Rate Linked? Explain. (3 marks)

(CO1) [Comprehension]

PART C

ANSWER THE FOLLOWING QUESTION

(2 X 11 = 22M)

9. A very important variable that is used across Stocks and Portfolios is Beta. It is used in very many ways to analyze volatility, risk etc. Given this background, using the given information, you are required to **COMPUTE** the 'Beta' of Wimco Equity Share and interpret the same.

Year	% of Returns	
	Wimco	Nifty Index
2018	24	15
2019	-10	-5
2020	12	10
2021	5	5
2022	15	10
2023	20	15

(CO2) [Application]

10. A Client of yours is interested in getting your advice on the strategy to adopt with regard to certain stocks. The following is the information relating to expectation of rupee returns of those select stocks and their beta values:

Name of Stock	Current Price	Expected Price in 1 Year	Dividend expected for the year	Beta
Neat Tyres	450.00	540.00	10.00	1.25
Melwin Labs	270.00	320.00	5.00	1.35
Encore Tech	80.00	95.00	2.00	1.45
Essel Steel	150.00	170.00	5.00	.95
Sujan Tex	830.00	920.00	20.00	1.65
Wellworth India	690.00	780.00	15.00	1.70

Considering the above information, assuming that the Benchmark Market Index Returns expected is 18% and Risk Free Rate of Return is 7%, **SELECT** the Stocks that you will advise your Client to BUY at the Current Price, by showing all calculations and explanation.

(CO2) [Application]