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M.B.A. (Semester—III) Examination

INVESTMENT SCIENCE

Paper—MBA/3105/F

Time—Three Hours] [Maximum Marks—70

N.B. :— (1) Attempt **ALL** the questions.

(2) Figures to the right indicate marks.

SECTION—A

1. (a) What is meant by a stock exchange ? What are the functions of a stock exchange ? In what ways is a stock exchange indispensable for an economy ? 14

OR

(b) "Money market is a market for short term assets and deals in money and near money."—Elucidate the statement. Also explain the various instruments of money market. 14

SECTION—B

2. (a) Define Investment. What are objectives of an investment ? 7

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(b) The returns on securities A and B are given below :

Probability	Security A	Security B
0.5	4	0
0.4	2	3
0.1	0	3

Give the security of your preference and which security has to be selected on the basis of return and risk. 7

OR

(c) "Investment is a well-grounded and carefully planned speculation." Discuss. 7

(d) A stock costing Rs. 120 pays no dividends. The possible prices that the stock might sell for at the end of the year with the respective probabilities are :

Price (Rs.)	Probability
115	0.1
120	0.1
125	0.2
130	0.3
135	0.2
140	0.1

SECTION—C

5. Following information has been provided to you :

Earning per share is Rs. 10

Dividends payout ratios are :

(a) 25 percent

(b) 50 percent

(c) 75 percent

(d) 100 percent

The company's capitalisation rate is 15 percent.

Calculate the price per share using Walter's model of dividend valuation when :

(i) Internal rate of return is 20 percent. 7

(ii) Internal rate of return is 15 percent. 7

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(i) Calculate the expected return.

(ii) Calculate the standard deviation of return. 7

3. (a) "Time value of money is helpful in capital budget." Explain. 7

(b) Find the present value of an income stream which provides Rs. 500; Rs. 1,000; Rs. 1,500; Rs. 2,000 and Rs. 2,500 at the end of 1, 2, 3, 4 and 5 years respectively if the interest rate is 12 percent. 7

OR

(c) Compare and contrast NPV with IRR. 7

(d) A firm has two investment opportunities, each costing Rs. 1,00,000 and each having an expected profit as shown below :

Year	Project A (Rs.)	Project B (Rs.)
1	50,000	20,000
2	40,000	40,000
3	30,000	50,000
4	10,000	60,000

After giving due consideration to the risk criteria in each project, the management has decided that

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project. A should be evaluated at a 10 percent cost of capital and project B, a risky project with a 15 percent cost of capital.

Compute the NPV and suggest the course of action for the management if :

(a) Both the projects are independent

(b) Both are mutually exclusive. 7

4. (a) How Yield to Call (YTC) is different from yield to Maturity (YTM). 7

(b) A bond pays interest annually and sells for Rs. 835. It has six years left to maturity and a par value of Rs. 1,000. What is its coupon rate if its promised YTM is 12 percent ? (Given PVIF 12% 6 years = 0.507 and PVIFA 12% 6 years = 4.11) 7

OR

(c) "Bond prices vary inversely with changes in market interest rates." Explain. 7

(d) XYZ company issues Rs. 1000 par value bond at 12 percent. The bond is redeemable after 10 years. Determine value of bond assuming required rate of return is 14 percent.

(Given : PVIF 14% 10 years = 0.270 and PVIFA 14% 10 years = 5.216) 7

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