

M.Com 3rd Semester Examination, 2019

COMMERCE

PAPER – COM-301

Full Marks : 40

Time : 2 hours

Answer all questions

The figures in the right hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Illustrate the answers wherever necessary

UNIT—I

[Marks : 20]

1. Answer any *two* questions of the following: 2 × 2

(a) What are the different stages in an industry life cycle ?

- (b) What is interest rate risk ?
- (c) Give two indicators under barometric approach in economy analysis.
- (d) Which classical technical analysis tool is most informative and why ?

2. Answer any *two* questions of the following : 4×2

- (a) Write a short note on Yield-to-maturity.
- (b) Distinguish between ordinary speculation and reckless speculation.
- (c) With a suitable illustration, discuss Markowitz's mean-variance rule.
- (d) From the following information about closing price of shares of a particular company, χ , draw a point and figure chart :

| <u>Day</u> | <u>Closing price</u> <u>(in Rs.)</u> | <u>Day</u> | <u>Closing price</u> <u>(in Rs.)</u> |
|------------|---|------------|---|
| 1 | 35 | 9 | 35 |
| 2 | 37 | 10 | 37 |
| 3 | 36 | 11 | 36 |
| 4 | 38 | 12 | 38 |
| 5 | 34 | 13 | 36 |
| 6 | 35 | 14 | 37 |
| 7 | 33 | 15 | 39 |
| 8 | 32 | | |

Draw the graph with box size of Re. 1 and consider the reversal criterion to be Rs. 2.

3. Answer any *one* question of the following : 8 × 1

- (a) Mr. I purchased 500 equity shares from market of X Co. Ltd. @ 9 per share as on 1.5.2015. The company declared a cash dividend of 10% for the financial year, 2014-15 which was to be credited to the bank accounts of the registered shareholders as per expiry of book closing on 15.5.2015. The year, 2015-16 was even better for the company

in respect of performance but it did not have sufficient cash to pay dividend in cash any more. But the company decided to capitalise its reserve by issuing forms shares for the year instead of cash dividend in the ratio of 1 : 2. The company also paid an interim dividend of 4% for the half-year ended on 30.9.2016 and went on declaring a final dividend of 8% as a continuation of rewarding its shareholders of its good performance for the year, 2016-17. But the next year, 2017-18 was not good for the company due to which the company refrained from paying any dividend in any form. The company faced fund crisis from the beginning of 2018-19 financial year and decided to go for a right issue in the ratio of 1 : 4 at its face value of Rs. 10 per share. However, the record date of right issue was fixed on 30.06.2019, the cum-right price of shares in the market was Rs. 22.50. If Mr. I sold all the shares on 31.10.2019 @ Rs. 30 per share, calculate total holding period rate of return and annualized rate of return.

- (b) Draw a line chart explaining the primary movement, secondary reactions, minor movement, support level and resistance level. You may assume necessary data for the same.

8

UNIT—II

[Marks : 20]

4. Answer any *two* questions from the following : 2×2
- (a) What is insider information ?
 - (b) Mention two important techniques to test the weak form of market efficiency.
 - (c) Write the formulae for portfolio risk in the case of a three-security portfolio.
 - (d) What is a sectoral fund ?
5. Answer any *two* questions from the following : 4×2
- (a) What do you mean by Systematic Risk ? How does it differ from Unsystematic Risk ?

- (b) Discuss the use of Filter rule to test the weak form of EMH.
- (c) Explain and interpret the term 'Jensen's alpha' in the context of portfolio management.
- (d) How is the Markowitz rule applied to arrive at the efficient frontier ? Explain with the help of a diagram.

6. Answer any *one* question from the following : 8 × 1

- (a) (i) Distinguish between CAPM and Arbitrage Pricing Theory (APT).
- (ii) Based on the following details, determine the securities that are overpriced and those that are underpriced in terms of the Security Market Line (SML).

| Security | Actual Return | β | σ |
|-------------|---------------|---------|----------|
| A | 0.33 | 1.7 | 0.50 |
| B | 0.13 | 1.4 | 0.35 |
| C | 0.26 | 1.1 | 0.40 |
| D | 0.12 | 0.95 | 0.24 |
| E | 0.21 | 1.05 | 0.28 |
| F | 0.14 | 0.70 | 0.18 |
| Nifty Index | 0.13 | 1.00 | 0.20 |
| T-Bill | 0.09 | 0 | 0 |

3 + 5

- (b) There are two securities M and N . The relevant data for them is given below :

| Security | M | N |
|-----------------|-----|-----|
| Return | 15 | 12 |
| Risk (SD) | 18 | 15 |
| Covariance | 135 | |
| % of investment | 30 | 70 |

- (i) You are required to compute the portfolio risk and return.

- (ii) Is it the minimum possible risk in the given case? If not, how will it be possible?
- (iii) There are three mutual funds, the details of which are given below.

| Fund | Beta | Jensen's α |
|------|------|-------------------|
| E | 1.45 | + 1.22 % |
| F | 1.89 | - 0.60 % |
| G | 2.23 | + 2.10% |

If the risk-free rate of return is 5.15%, and market return is 11.2%, calculate the appropriate ratio for fund evaluation. 2 + 2 + 4

[*Internal Assessment* – 10 Marks]