

## SIXTH SEMESTER B.Com. DEGREE EXAMINATION, MARCH 2013

(CCSS)

## BC 6B 15—FUNDAMENTALS OF INVESTMENTS

Time : Three Hours

Maximum : 30 Weightage

## Part A

*This part contains three bunches of questions carrying equal weightage.**Each bunch has four questions.**Answer all twelve questions.*

Fill in the blanks :

1. The link between the depositary and the owner is called as \_\_\_\_\_ participant.
2. The direction of movement of share prices in the market is referred to as \_\_\_\_\_.
3. Bonds that are issued at a very low price than the face value but redeemed at par is called as \_\_\_\_\_ bonds.
4. That portion of total variability of return caused by common factors affecting the price of all securities is called as \_\_\_\_\_ risk.

Choose the correct answer from the bracket :

5. Investor protection is the major responsibility of : (a) RBI ; (b) SEBI.
6. A bond that gives an option to convert it into equity share is called as : (a) Zero coupon bond ; (b) Convertible bonds
7. A derivative security used for the purpose of risk management in the investment market, based on some security, is referred to as : (a) Option ;(b) Bond.
8. EPS stands for : (a) Equity per share ; (b) Earnings per share.

Answer in one word :

9. Portion of profit distributed to equity share holders is called as :
10. Name the market for selling securities which have been already issued by corporate concerns.
11. What is term used to represent the number of shares less than the normal trading lot ?
12. Name the statistical measure used for measuring risk in investment in absolute sense.

(12 × ¼ = 3 weightage)

Turn over



## Part B

Answer all **nine** questions in one or two sentences each.  
Each question carries a weightage of 1.

13. What are financial derivatives ?
14. Define Forward contract.
15. What do you mean by Yield to Maturity ?
16. What is interest Rate Risk ?
17. Explain Random Walk theory.
18. What do you mean by efficient market hypothesis ?
19. What is meant by portfolio revision ?
20. What are the basic objectives of Investment ?
21. Distinguish between investment and speculation.

(9 × 1 = 9 weightage)

## Part C

Answer any **five** questions.  
Answer not to exceed **one** page each.  
Each question carries a weightage of 2.

22. Explain briefly the various investment avenues.
23. Distinguish between fundamental and technical analysis.
24. "Fixed deposits need not be a good investment". Critically examine the above statement.
25. Discuss the objectives of SEBI.
26. Ram Kumar is considering the purchase of a bond currently selling for Rs. 8785.07. The bond has four years to maturity, a Rs. 10,000 face value and an 8 per cent coupon rate. The next annual interest payment is due one year from today. The approximate discount factor for investment with a similar risk is 10 per cent
  - (i) Calculate the intrinsic value of the bond. Based on this calculation, should Ram Kumar purchase the bond ?
  - (ii) Calculate the YTM of the bond. Based on this calculation, should Ram Kumar purchase the bond ?
27. An investor holds an equity share giving an annual dividend of Rs. 30. He expects to sell the share for Rs. 300 at the end of a year. Calculate the value of the share if required rate of return is 10 per cent.
28. The following details relate to the possible returns on an investment and the probability of realization of such returns. Calculate the Expected returns of the investment.
 

Possible Returns (Per cent) :	30	40	50	60	70
Probability	: 0.10	0.30	0.40	0.10	0.10

(5 × 2 = 10 weightage)



## Part D

Answer any two questions.

Each question carries a weightage of 4.

29. What do you mean by stock exchange ? Explain the functions of stock exchanges.
30. A share is currently selling for Rs 65. The company is expected to pay a dividend of Rs 2.50 on the share at the end of each year. It is reliably estimated that the share will sell for Rs 78 at the end of the year :
- (a) Assuming that the dividend and price forecasts are accurate, would you buy the share to hold it for one year, if your required rate of return were 12 per cent ?
  - (b) Given the current price of Rs 65 and the expected dividend of Rs 2.50, What would be the price to be "at the end of one year to justify purchase of the share today, if your required rate of return were 15 per cent ?
31. A person owns a Rs 1,000 face value bond with five years to maturity. The bond makes annual interest payment of Rs 80. The bond is currently priced at Rs 960. Given that the market interest rate is 10 per cent, should the investor hold or *sell* the bonds? Make your comments with justification.

(2 × 4 = 8 weightage)