



# LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

## B.Com. DEGREE EXAMINATION – COMMERCE

FIFTH SEMESTER – NOVEMBER 2016

### CO 5401 - PERSONAL INVESTMENT

Date: 09-11-2016  
Time: 09:00-12:00

Dept. No.

Max. : 100 Marks

#### PART- A

**ANSWER ALL THE QUESTIONS**

**(10X2=20 Marks)**

1. Define Time Value of Money.
2. What is interest rate risk?
3. Who can hedge using derivatives?
4. What is called Zero coupon bond?
5. Can one consider Modern Art as investment?
6. Name few money market instruments available to investors.
7. What is the future value of Rs 25000 invested today after 60 years, if the discount rate is 10 percent?
8. A borrower offers 16% nominal rate of interest with quarterly compounding. What is the effective rate of interest?
9. An investor has a choice of two stocks for investment. Their rate of returns and probabilities are given below:

Stock A		Stock B	
Return	Probability (%)	Return	Probability (%)
-30	20	-20	20
0	40	10	40
30	30	40	30
70	10	80	10

Which stock is better?

10. Define risk.

#### PART- B

**ANSWER ANY FOUR QUESTIONS**

**(4X10=40 Marks)**

11. What is CAPM? State the usage and assumptions of CAPM.
12. What are the risks involved in bond investing?

13. A finance company advertised that it would pay a lumpsum of Rs. 10 lacs at the end of 6 years to investors who deposit annually a sum of Rs. 1 lac. Compute the rate of interest offered by the finance company.
14. Write short notes on:
- Expected return
  - Actual return
  - YTM
  - Callability risk
15. Discuss the idea of investing in Gold. Highlight the pros and cons.
16. Differentiate between Investment and speculation.
17. As a Winner of a competition, you can choose one of the following prizes:
- Option A Rs. 500,000 now
  - Option B Rs. 10,00,000 at the end of 6 years
  - Option C Rs. 60,000 a year forever
  - Option D Rs. 100,000 per year for 10 years
  - Option E Rs. 35,000 next year and rising thereafter by 5% per year forever.
- If the interest rate is 10 percent, Which prize has the highest present value. Justify why your option is the best.

### **PART -C**

**ANSWER ANY TWO QUESTIONS**

**(2X20=40 Marks)**

18. Discuss in detail the factors that affect the selection of investment.
19. A Company is currently paying a dividend of Rs 5.00 per share. The dividend is expected to grow at a 18% annual rate for five years and then at 12% for ever. What is the present value of the share, if the capitalisation rate is 10%?
20. Explain the unsystematic risk involved in investment.
21. a) A Rs. 1000 par value bond, bearing a coupon rate rate of 11 % will mature after 5 years. What is the value of the bond, if the discount rates are
- i) 11 percent ii) 15 percent iii) 19 percent? Discuss the relationship between the discount rate and price of bond empirically
- b) The market value of a Rs. 1000 par value bond, carrying a coupon rate of 12 % and maturing after 7 years, is Rs. 750. What is the yield to maturity on this bond?

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