 LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

 **M.A.** DEGREE EXAMINATION - **ECONOMICS**

FOURTH SEMESTER – **APRIL 2012**

# EC 4813 - PORTFOLIO THEORY AND INVESTMENT ANALYSIS

 Date : 20-04-2012 Dept. No. Max. : 100 Marks

 Time : 1:00 - 4:00

 **Part A**

**Answer any FIVE questions:**  **(5x04=20)**

1. Define Portfolio Management by pointing out its important functions.
2. Define Risk and Return from both Traditional and Modern perspectives.
3. State the various choice of asset mix preferred by investors.
4. State the Constant Growth Model.
5. What are β’s? How do they differ from bij’s?
6. Differentiate between Exchange trading and OTC Trading.
7. Write a note on derivative instruments.

**Part B**

**Answer any FOUR questions:**   **(4x10=40)**

1. Briefly explain the Indian Money Market scenario.
2. Comment on the superiority of APT over CAPM.
3. Brief the various Investment alternatives an investor can access in a financial economy.
4. Explain the Put-Call Parity theorem using suitable illustration and diagrams.
5. The following table gives an analyst’s expected return on two stocks for particular market returns:

 Market returns Aggressive stock Defensive stock

 5% -5% 8%

 25% 40% 18%

1. What are the betas of the two stocks?
2. What is the expected return on each stock if the market is equally likely to be 5% and 25%?
3. If the risk free rate is 08%, what is the SML?
4. What are the alphas of the two stocks?
5. Examine the contributions made by Eugene Fama in measuring risk?
6. Calculate the value of the Call option for the given information:

S = Rs.70 E = Rs. 72 r = 12% σ = 0.3 t = 6months.

**Part C**

**Answer any TWO questions:** **(2x20=40)**

1. Derive the CAPM equation by detailing the assumptions of the CAPM. Support your answer with graphical evidence.
2. Critically examine the Market Efficiency Hypothesis.
3. Highlight the differences in calculating the price of an equity using Two Stage Growth model and ‘H’ model.
4. Derive the Two Stage Binomial Option Pricing Model.

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