

ADMISSION NUMBER									

School of Business
Bachelor of Business Administration
Mid Term Examination - May 2024

Duration : 90 Minutes
Max Marks : 50

Sem IV - D1UA406T - Investment Analysis and Portfolio Management

General Instructions
 Answer to the specific question asked
 Draw neat, labelled diagrams wherever necessary
 Approved data hand books are allowed subject to verification by the Invigilator

- 1) Evaluate the primary objectives of investment? Discuss how these objectives may vary for different types of investors. K3 (6)
- 2) Your rate of return expectations for the stock of Gray Cloud Company and Kayleigh Cosmetics Company during the next years are: K3 (9)

Grey Cloud Company		
Year	Possible Rate of Return	Probability
2025	-0.10	0.25
2026	0.00	0.15
2027	0.10	0.35
2028	0.25	?

Kayleigh Cosmetics Company		
Year	Possible Rate of Return	Probability
2025	-0.60	0.15
2026	-0.30	0.10
2027	-0.10	0.05
2028	0.20	0.40
2029	0.40	0.20
2030	0.80	?

- a. Compute the missing probabilities of Gray Cloud Company and Kayleigh Cosmetics Company. (2 marks)
- b. Compute the expected return $[E(R_i)]$ on this stock, the variance (σ^2) of this return, and its standard deviation (σ) of both the companies. (2 Marks)
- c. Under what conditions can the standard deviation be used to measure the relative risk of two investments? (2 Marks)
- d. Under what conditions must the coefficient of variation be used to measure the relative risk of two investments? (2 Marks)
- e. On the basis of expected return $[E(R_i)]$ alone, discuss whether Gray Cloud or Kayleigh Cosmetics is preferable. (1 marks)

- 3) Evaluate the relationship between risk and return in investment portfolios, considering various asset classes. Develop a comparative analysis outlining how different risk profiles impact potential returns, referencing real-world examples where appropriate. K4 (4)
- 4) The concept of bond convexity is crucial for Bond investing , justify and also discuss how convexity differs from duration in measuring interest rate risk and provide examples of scenarios where convexity becomes significant in bond investing. Additionally, analyze the role of convexity in bond portfolio management strategies, including hedging strategies and portfolio optimization techniques. K4 (8)
- 5) Compare and contrast active and passive investment strategies in the context of bond investing, focusing on their approaches to managing duration and modified duration. Provide examples of active and passive bond investment vehicles, such as actively managed bond funds and bond index funds, and evaluate their respective advantages and disadvantages. Furthermore, discuss how active bond managers utilize duration and modified duration to enhance returns and manage risk compared to passive bond strategies. K4 (8)
- 6) Evaluate the significance of portfolio management in achieving investment objectives. How does effective portfolio management contribute to risk reduction, return optimization, and wealth preservation for investors? Provide examples of portfolio strategies and discuss their impact on investment outcomes in different market conditions. K5 (5)
- 7) Suppose you read in Business Week that a panel of economists has estimated that the long-run real growth rate of the U.S. economy over the next five-year period will average 3 percent. In addition, a bank newsletter estimates that the average annual rate of inflation during this five-year period will be about 4 percent. K5 (10)
- A- What nominal rate of return would you expect on U.S. government T-bills during this period?
- B- What would your required rate of return be on common stocks if you wanted a 5 percent risk premium?
- C- If common stock investors became risk averse, what would happen to the required rate of return on common stocks?
- D- What would be the impact on stock prices?