

Mid-West University
Examinations Management Office
Surkhet, Nepal
Chance Examination-2080
Bachelor of Business Studies (BBS)
Semester - VII

Subject: Investment Analysis

Course Code: FIN 476

Full Marks: 60 Pass Marks: 30

Time: 3: 00 Hours

You are required to answer in your own words as far as applicable. Figures in the margins indicate full marks.

SECTION A: VERY SHORT ANSWER QUESTIONS (10 X 1 = 10 MARKS)

Answer **ALL** the questions.

1. What do you mean by financial intermediaries?
2. Write the meaning of continuous market.
3. What do you mean by NEPSE sensitive index?
4. You purchased 1000 shares of Kandel Corporation for Rs. 500 per share on January 1, 2022. You received a dividend of Rs 16 per share on September 30, 2022. On December 31, 2022, you sold all of your shares for Rs.555 per share. What is your holding period return?
5. What is portfolio?
6. A stock has an expected return of 13 percent, the risk free rate is 5 percent and the market risk premium is 7 percent. What must be beta of this stock be?
7. What do you mean by EURO Dollar?
8. Just today, Karnali Agro Company's stock paid Rs. 10 annual dividends per share and had a closing price of Rs. 220. Dividend is expected to grow at 10 percent per year forever. What is the expected dividend yield?
9. A 180-days maturity treasury bill is selling for Rs 99500. Its face value is Rs 100000. What is its bank discount yield?
10. What are the main features of preferred stock?

SECTION B: SHORT ANSWER QUESTIONS (3 X 8 = 24 MARKS)

Answer any **THREE** questions.

11. What are the essential steps that constitute the investment process? Explain. [8]
12. In the context of financial markets, what precisely constitutes a security market, and how do primary and secondary markets differ? Discuss. [8]
13. Consider the following quotation in an issue of the Wall Street Journal.

Maturity	Day to Mat.	Bid	Ask	Chg.	Ask Yield
9/9/25	170	5.59	5.55	-0.05	5.89

- a. What does 'Day to mat' 170' mean? [1]
 - b. Explain the difference between the bid quotes and ask quotes. Is bid quote always higher than ask quote? [2]
 - c. What is dealers spread? [2]
 - d. Explain the 'Chg. -0.05' means. [1]
 - e. Notice that the bill matures in 170 days and has an ask yield of 5.89%. Is this a 170 days' yield or annualized yield? [2]
14. The risk free rate of return is 8 percent; the required rate of return on the market is 15 percent; and DP Company stock has a beta coefficient of 1.4.
 - a. Based on the Capital Assets Pricing Model, what should be the required rate of return for DP Company's stock? [1]
 - b. If the dividend expected during the coming year, D_1 is Rs. 6 and if $g =$ a constant 5 percent, at what price should DP's stock sell? [2]
 - c. If the dividend of stock is paid Rs. 6 per share forever, at what price should DP's stock sell? [2]

d. If the dividend expected during the coming year, D_1 is Rs. 6 and dividend is expected to grow at 20 percent for next two years, at 8 percent in the fourth year and then remains constant at 6 percent forever, at what price should DP's stock sell? [3]

15. Given the summary statistics for five investment portfolios, please answer the following questions:

Portfolios	Average Return	Standard Deviation	Beta
P	12	15	1.2
Q	15	12	0.9
R	15	8	1
S	10	10	0.6
T	7	5	0.5

Assume that the riskless rate of interest is 7%.

- According to the Sharpe measure, which portfolio exhibited the best performance? Why? [3]
- Based on Treynor's performance measure, which portfolio performed the best, and what is the rationale behind this assessment? [3]
- Summarize the implications or insights drawn from the findings in parts (a) and (b). [2]

SECTION C: LONG ANSWER QUESTIONS (2 X 13 = 26 MARKS)

Answer any **TWO** questions.

16. What is the comprehensive definition of investments? Could you elaborate the various investment alternatives that individuals can explore to potentially grow their wealth or achieve their financial goals in today's dynamic economic landscape? [3+10]

17. Stock A and Stock B have the following historical returns:

Return		Year
Stock A	Stock B	
8	16	2010
10	14	2011
12	12	2012
14	10	2013
16	8	2014

- Calculate the average rate of return for each during the period 2010 through 2014. [2]
- Assume that someone held a portfolio consisting of 50 percent of Stock A and 50 percent of Stock B. What would have been the realized rate of return on the portfolio? [2]
- Calculate the standard deviation of returns for each stock and for the portfolio. [4]
- Calculate the coefficient of variation for each stock and for the portfolio. [3]
- If you are a risk averse investor, would you prefer to hold Stock A, Stock B, or the portfolio? Why? [2]

18. Following is the market information for the securities of three companies:

Year	Market Price			Shares Outstanding		
	ABC	PQR	XYZ	ABC	PQR	XYZ
2014	50	40	35	1000	3000	2000
2015	20	40	30	3000	3000	2000
2016	20	45	33	3000	3000	2000

There have been 3 for 1 stock split in ABC stock during 2014.

- Determine the price weighted index for each year using Dow Jones Industrial Average. [4]
- Determine the value weighted index for each year using standard and poor's index (S&P) with base value of 10. [4]
- What is the return for stock in 2015 and 2016 based on the price weighted index and value weighted index? [4]
- Briefly discuss the difference in the results for price weighted index and value weighted index. [1]

THE END