

MID-WESTERN UNIVERSITY  
FACULTY OF MANAGEMENT  
FINAL EXAMINATION: 2073  
BACHELOR OF BUSINESS STUDIES (BBS)  
SEMESTER - VII

Subject: Investment Analysis  
Full Marks: 100

Course Code: FIN 476  
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 2 = 20 MARKS)**

**Answer all questions.**

- Q1. List the steps of investment process.  
Q2. State any two differences between investment and gambling.  
Q3. An investment has beginning value of Rs. 10,100. You buy this investment. After six months you sell it for Rs. 10,500 after receiving a cash dividend of Rs. 600. What is the holding period return on this investment?  
Q4. From the following information, which investment would you prefer? Stock A or Stock B.

Stock	A	B
Risk ( $\sigma_i$ )	4.15%	17.58%
Return ( $R_i$ )	14.50%	20%

- Q5. What is Capital Market Line (CML)?  
Q6. Define fixed income securities.  
Q7. What is municipal bond?  
Q8. Surya Company is expected to pay a dividend of Rs. 15 in the coming year. The required rate of return is 16%, and dividends are expected to grow at 7% per year. Using the dividend discount valuation model, find the intrinsic value of the company's common shares.  
Q9. What do you mean by preemptive right?  
Q10. Define reverse stock split.

**SECTION B: SHORT ANSWER QUESTIONS (6 X 8 = 48 MARKS)**

**Answer any SIX questions:**

- Q11. Discuss the factors that affect the choice of investment alternatives. (8)  
Q12. Differentiate between systematic risk and un-systematic risk. (8)  
Q13. What is security market? State and explain the different types of security market. (8)  
Q14. Assume yourself as a portfolio manager and with help of the following details, answer the following questions:  
Risk free rate of return ( $R_f$ ) 5%  
Expected return on market portfolio ( $R_M$ ) 18%  
Beta of Vimal Enterprises stock ( $\beta_V$ ) 1.1  
a. Is Vimal Enterprises stock can be classified as an aggressive assets and why? (1)  
b. Write equation for SML. (2)  
c. Draw SML and locate Vimal Enterprises stock on it. (3)  
d. Suppose, you have independently estimated that the expected return for Vimal Enterprises stock is 14%. Is Vimal Enterprises stock underpriced or overpriced? If a market is striving toward equilibrium, what would happen to the price of Vimal Enterprises stock? (2)  
Q15. You have been assigned the task of comparing the investment performance of four different pension fund managers. After gathering 60 months of returns, you have prepared the following summary of the data, for each of the pension fund managers.

Portfolio	Return ( $R_i$ )	Standard deviation ( $\sigma_i$ )
A	18	15
B	15	13
C	13	6
D	10	8

During the period under consideration, Risk Free Rate of return is considered to be 5%.

- i) Compute the Sharpe Measure for each portfolio. (4)  
ii) Which of the portfolios performed the best according to Sharpe's measure? Rank them. (2)  
iii) Draw graphs to illustrate the work for Sharpe's measure. (2)

- Q16. Siddhartha Group is conducting the annual election for its five-member board of directors. The firm has 1,500,000 shares of voting common stock outstanding.
- Under majority voting system, how many shares must a stockholder own to ensure electing his or her choices to each of the five directors' seats? (2)
  - Under cumulative voting system, how many shares must a stockholder own to ensure electing one of his or her choices as a director? (4)
  - What is proxy? Explain with an example. (2)
- Q17. Vishal Bazar Co. Ltd. currently pays a dividend of Rs. 8 per share on its common stock.
- If Vishal Bazar plans to increase its dividend at a rate of 5% per year indefinitely, what will be the dividend per share in year 10? (2)
  - If Vishal Bazar's dividend per share is expected to be Rs. 12 per share at the end of 5 years, at what annual rate is the dividend expected to grow? (2)
  - If Vishal Bazar's dividend grows at 5% only for three years and grows thereafter at constant rate of 3% forever, what will be intrinsic value of Vishal Bazar stock? (4)
- Q18. A) Why company chooses stock dividend instead to pay cash dividend? Explain. (4)  
 B) Menomonie publishing stock currently sells for Rs. 160 per share. The Company has 2,000,000 shares outstanding. What would be the effect on the number of shares outstanding and on the stock price if company declares the 20% stock dividend? (4)

### SECTION C: LONG ANSWER QUESTIONS (2 X 16 = 32 MARKS)

**Answer any TWO questions:**

- Q19. "A wide range of investment alternatives is available to individual investors". In light of this statement, discuss the various investment alternatives available for investors. (16)
- Q20. Based on the future returns of the two stocks, you are asked to answer the following questions.

State of the Economy	Probability	Returns	
		A	B
1	0.1	-20	-10
2	0.2	-5	5
3	0.4	10	10
4	0.2	20	12
5	0.1	30	20

- Calculate the expected return of stock A and B? (4)
  - What is the standard deviation of Stock A and B? (4)
  - Calculate the covariance and correlation coefficient of the returns of stock A and stock B. (2)
  - What will be the risk and return of a portfolio consisting in equal proportions in stock A and Stock B? (4)
  - Is it possible to reduce the portfolio risk of stock A and stock B to '0'? Comment. (2)
- Q21. A) T- Bill with face value of Rs. 10,000 and 91 days' maturity issued today by Nepal Rastra Bank, at a bank discount yield of 4%.
- What is the price of T-Bill? (2)
  - What is the 91 days holding period return of the bill? (2)
  - What is bond equivalent yield of the bills? (2)
  - What is the effective annual yield of the bill? (2)

B) Consider the following quotation in an issue of the Wall Street Journal.

Maturity	Day to Mat.	Bid	Ask	Chg.	Ask Yield
08/12/16	170	5.59	5.55	-0.05	5.89

- What does 'Day to Mat. 170' means? (1)
- Explain the difference between the bid quotes and ask quotes. Is bid quote always higher than ask quote? (2)
- Calculate the bid price and ask price assuming face value of Rs. 10,000. (2)
- Explain the 'Chg. -0.05' means. (2)
- Notice that the bill matures in 170 days and has an ask yield of 89%. Is this a 170 days yield or annualized yield. (1)