| MCT-078 |

MASTER OF BUSINESS ADMINISTRATION
IN FINANCIAL MARKETS (MBAFM)
Term-End Examination
December, 2015

MCT-078 : FINANCIAL MODELLING

Time : 3 hours   *Maximum Marks : 100*

Note : *Attempt any* **five** *questions. All questions carry equal marks.*

1. "Financial models can integrate the elements of accounting, finance, economics, psychology and business philosophy." Elucidate the statement with supportive examples.   *20*

2. "NPV is by far the most robust evaluation criterion available to the financial manager." Critically discuss this statement.   *20*

3. Can you diversify away all risks, and create a riskless portfolio ? Comment on this, by explaining what is meant by the terms 'risk' and 'diversification' in the context of portfolio selection.   *20*

4. Define financial modelling and discuss its types. *20*

5. The bonds of the Suzon Corporation are perpetuities with a 10% coupon. Bonds of this type currently yield 8%, and their par value is ₹ 1,000.

(a) What is the price of the Suzon Corporation Bonds ?

(b) Suppose interest rate level rises to the point where such bonds now yield 12%. What would be the price of Suzon Corporation Bonds ?

(c) At what price would the Suzon Corporation Bonds sell, if the yield on these bonds was 10% ? *6+7+7*

6. Which of the following firms is likely to have a higher value from the dividend discount model, a higher value from the Free Cash Flow to Equity (FCFE) Model or the same value from both models ?

(a) A firm that pays out less in dividends than it has available in FCFE, but which invests the balance in treasury bonds.

(b) A firm that pays out more in dividends than it has available in FCFE, and then issues stock to cover the difference.

Give reasons in support of your answer. *10+10*

7. Define Financial Engineering. Discuss any two important techniques of financial engineering. *20*

8. Write short notes on any *four* of the following : *4×5=20*

   (a) Counter-party Credit Risk

   (b) Monte-Carlo Analysis

   (c) WACC

   (d) EPS Forecasting

   (e) Interest Rate Products Modelling

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