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MCT-080

MASTER OF BUSINESS ADMINISTRATION (FINANCIAL MARKETS) (MBAFM)

00211

Term-End Examination

June, 2013

MCT-080 : PORTFOLIO MANAGEMENT

Time : 3 hours *Maximum Marks : 100*

PART-A

1. Each question carries 2 marks, while selecting your answer, give brief justification (reason) for your answer. 20

   (a) If Investor A has a steeper indifference curve than Investor B, then Investor A's optimal portfolio on the efficient frontier will :

   (i) Be the same as Investor B's optimal portfolio.

   (ii) Have more return than Investor B's optimal portfolio.

   (iii) Have more risk than Investor B's optimal portfolio.

   (iv) None of the above

   (b) After incurring a loss, people are less inclined to take risk. This effect is sometimes referred to as :

   (i) House-money effect

   (ii) Trying-to-break-even effect

(iii) Money-illusion effect

(iv) Snake-bite effect

(c) The covariance of daily returns for two stocks is 180. One can conclude that the daily returns on these two stock have :

(i) No linear relationship.

(ii) A strongly positive linear relationship.

(iii) A strongly negative linear relationship.

(iv) A mildly negative linear relationship.

(d) The investment needs of Endowment and foundations can be best described as :

(i) Long time horizon, high risk tolerance and high liquidity needs.

(ii) Long time horizon, low risk tolerance and high liquidity needs.

(iii) Long time horizon, low risk tolerance and low liquidity needs.

(iv) Long time horizon, high risk tolerance and low liquidity needs.

(e) The theoretical market portfolio used to form the Capital Market line is :

(i) An equal weighted portfolio of all risky assets.

(ii) A market weighted portfolio of all risky assets.

(iii) A market weighted portfolio of all stocks and bonds.

(iv) A market weighted portfolio of only stocks

(f) The expected return on PRIMECOAT will be 18%. It has a beta of 1.2 and the expected market return will be 12%. The risk free rate is 8%. Based on this data, one can conclude that :

(i) The stock is correctly valued

(ii) The stock is undervalued

(iii) The stock is overvalued

(iv) The information is inadequate

(g) As per the prospect theory proposed by Kahneman and Tversky :

(i) The utility function is convex for gains

(ii) The utility function is concave for losses

(iii) The utility function is convex for both gains and losses

(iv) The utility function is convex for losses

(h) When you add a risk free asset X to the risky asset Y, then the portfolio standard deviation will be the :

(i) Weight of X multiplied by standard deviation of Y

(ii) Weight of X multiplied by standard deviation of X

(iii) Weight of Y multiplied by standard deviation of X

(iv) Weight of Y multiplied by standard deviation of Y

(i) If each investor has different expectations about expected returns, risk or correlation between risky assets returns each investor will have :

(i) A different optimal risky asset portfolio and the same CAL.

(ii) A different optimal risky asset portfolio and a different CAL.

(iii) The same optimal risky asset portfolio and a different CML.

(iv) The same optimal risky asset portfolio and a different SML.

(j) The portfolio to the right of market portfolio on the CML is most likely to be :

(i) A high beta portfolio

(ii) A lending portfolio.

(iii) A risk free portfolio.

(iv) None of the above

PART-B

Attempt **any two** questions. Each question carries **20** marks. 40

2. The expected return and standard deviation on SPUTNIK equity shares is 0.20 and 0.30 respectively. The expected return and standard deviation on SPUTNIK bonds is 0.10 and 0.15 respectively. Calculate the expected return and standard deviations for the following portfolio combinations :

   Equity allocation is 100%, 50.00% and 33.33%. The correlation is +1, 0 and −1. Calculate for each value of the correlation.

3. The risk free rate is 8% and the expected return on the market portfolio is 16% with a standard deviation of 20%. Calculate the expected return and standard deviation of returns for portfolios that are 25%, 50% and 125% invested in the market portfolio.

4. Calculate the expected return and standard deviation of the three asset portfolio shown in the following figure :

	A-Plus	B-Plus	C-Plus
Amount invested (Rs)	35,000.00	25,000.00	40,000.00
Expected Return	12%	26%	30%
Standard deviation	16%	18%	22%
	Correlation		
A-Plus and B-Plus	0.30		
A-Plus and C-Plus	0.20		
B-Plus and C-Plus	0.40		

PART-C

Attempt **any four** questions. Each question carries **10** marks. 40

5. How does the Arbitrage Pricing Theory (APT) differ from the CAPM ? Which theory, in your view, holds better position to explain the expected returns on stocks ? Discuss in detail.

6. What do you understand by heuristic-driven biases ? Discuss in detail.

7. What do you understand by the Sharpe ratio, Treynor's measure and Jensen's alpha ? Explain with equations and diagrams.

8. Discuss any 10 of the Zurich Axioms.

9. Discuss in detail the investment constrains with regards to liquidity needs, time horizon, tax concerns, legal and regulatory factors and unique needs/preferences.

10. What are the major components of an Investment Policy Statement (IPS) ?