Register Number: ………………………..

M.B.A DEGREE EXAMINATIONS: NOV/DEC 2010

Fourth Trimester

MASTER OF BUSINESS ADMINISTRATION

MBA523: Portfolio Management

Time: Three Hours **Maximum Marks: 100**

Answer ALL Questions:-

PART A (1 x 20 = 20 Marks)

1. Assume CAPM equilibrium model with unlimited borrowing and lending at the risk less rate of interest. Complete the blanks in the following table.

Security	E(R)	SD	β	e1 2
A	0.15	-	2.0	0.10
B	-	0.25	0.75	0.04
C	0.09	-	0.50	0.17

PART B (10 x 2 = 20 Marks)

2. Define portfolio.
3. Write short notes on APT
4. What is meant by security market line?
5. What is the main objective of CAPM Model?
6. How can we arrive at the optimum portfolio?
7. Differentiate Sharpe's performance with Treynors performance index.
8. What is beta?
9. What is meant by portfolio evaluation?
10. Differentiate open fund and close fund mutual funds.
11. Give short notes on swaps.

PART C (4 x 15 = 60 Marks)

12. (a) Explain the statistical method used by Markowitz to obtain the risk reducing benefits?

(OR)

(b) An investor wants to build a portfolio with the following four stocks. With the following information, find out his portfolio return and portfolio variance.

The investment is spread equally over the stock.

Company	α	β	Residual variance
A	0.17	.93	45.15
B	2.48	1.37	132.25
C	1.47	1.73	196.28
D	2.52	1.1	51.98

Market Return (Rm) = 11

Market return variance = 26.

13. (a) Explain in detail meaning assumptions and application of CAPM model in portfolio management

(OR)

(b) Explain the different approaches in portfolio construction?

14. (a) The expected rates of return and the possibilities of their occurrence for Alpha company and Beta company scripts are given below.

Probability of occurrence	Return on Alpha's scrip	Returns on Beta's scrip
0.05	-2.0	-3.0
0.20	9.0	6.0
0.50	12.0	11.00
0.20	15.0	14.00
0.05	26.0	19.0

(i) Find out the expected rates of return for Alpha and Beta scrips?

(ii) If an investor invests equal proportion on both the scrips what would be the return?

(iii) If the proportion is changed to 25 % and 75 % and then to 75 %and 25 % what would be the expected rates of return?

(OR)

(b) Mr. Raja is constructing an optimum portfolio. The market return forecast says that it would be 13.5 % for the next two years with the market variance of 10%. The risk less rate of return is 5 % the following securities are under review. Find out the optimum portfolio.

Company	**α**	**β**	**e1 2**
P	3.72	0.99	9.35
Q	0.60	1.27	5.92
R	0.41	0.96	9.79
S	-0.22	1.21	5.39
T	0.45	0.75	4.52

15. (a) Explain the different methods of evaluating portfolio performance?

(OR)

(b) "Formula plans help the investor to overcome being emotionally attached to the stock" – Explain

****