Register Number ....

M.B.A. DEGREE EXAMINATIONS: DECEMBER 2008

Fourth Trimester

P07BA411 PORTFOLIO MANAGEMENT

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

Answer ALL Questions: -

PART A (1 x 20 = 20 Marks)

1. The following tables gives and analyst's expected return on two stocks for particular market returns:

Market Return	Aggressive Stock	Defensive Stock
6%	2%	8%
20%	30%	36%

a) What are the betas of the two stocks?

b) What is the expected return on each stock if the market return is equally likely to be 6% or 20%?

c) If the risk-free rate is 7% and the market return is equally likely to be 6% or 20% what is the Security Market Line?

d) What are the alphas of the two stocks?

PART B (10 x 2 = 20 Marks)

2. Define Portfolio

3. List out the approaches in Portfolio Construction

4. What are all the assumptions used in the Arbitrage Pricing Theory

5. What is meant by optimal portfolio?

6. What is Risk Free Asset?

7. What is beta?

8. How do you calculate Sharp Index?

9. Explain Jensen Measure of differential return in the Portfolio Evaluation. .

10. What is meant by Portfolio Revision?

11. Explain Mutual Funds.

PART C (4 x 15 = 60 Marks)

12. (a) How would you formulate the asset mix according to the given objectives?

(OR)

(b) i). Consider two stocks, P and Q (5 Marks)

	Expected Return (%)	Standard Deviation (%)
Stock P	16	25
Stock Q	18	30

The Returns on the Two stocks are perfectly negatively correlated.
What is the expected return of a portfolio Constructed to drive the standard deviation of portfolio return to zero?

ii). The following information is available: (10 Marks)

	Stock A	Stock B
Expected Return (%)	16	12
Standard Deviation	5	8
Co-efficient of Correlation	0.60	

a. What is the co-variance between stocks A and B?

b. What is expected return and risk of a portfolio in which A and B have weights of 0.6 and 0.4.

13. (a) Define Markowitz diversification. Explain the statistical method used by Markowtiz to obtain the risk reducing benefit.

(OR)

(b) Illustrate, with suitable examples, how security return and risk are estimated under single Index model .

14. (a) The following information is provided regarding the performance of the funds namely A, B and C Value for a period of six months ending September 2008. The risk free rate of interest assumed to be 9 (R_f). Rank them with the help of Sharpe and Treynor Index models and discuss the same.

	R_p	σ_p	ß
A	25.38	4	.23
B	25.11	9.01	.56
C	25.01	3.55	.59

(OR)

(b). What is the essential difference between the Sharpe and Treynor Indexes of Portfolio Performance? Which do you think is preferable? Why?

15. (a). What Factors necessitate Portfolio Revision and describe the major constraint in portfolio revision.

(OR)

(b). Discuss the various advantages for investing in Mutual funds.

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