IMT- 09

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

Notes:

a. Write answers in your own words as far as possible and refrain from copying from the text books/handouts.
b. Answers of Ist Set (Part-A), IInd Set (Part-B), IIIrd Set (Part – C) and Set-IVth (Case Study) must be sent together.
c. Submit the assignments in IMT CDL H.O.along with the assignments Question Papers for evaluation .
d. Only hand written assignments shall be accepted.

A. First Set of Assignments	5 Questions, each question carries 1.5 marks.
B. Second Set of Assignments	5 Questions, each question carries 1.5 marks.
C. Third Set of Assignments	5 Questions, each question carries 1.5 marks. Confine your answers to 150 to 200 Words.
D. Forth Set of Assignments	Two Case Studies : 7.5 Marks. Each case study carries 3.75 marks.

SECTION - A

1. Define the term 'investment' as it relates to securities investments.
2. How do operations on a stock exchange affect the economic life of a nation?
3. Explain the term 'New Issue Market'. How does it differ from the 'secondary market'?
4. What is meant by 'listing of securities'? What are the advantages form the point of view of a company?
5. What is a market index? Outline its utility for security analysis.

SECTION - B

1. Why it is said IPOs are underpriced compared to the price at which they could be marketed?
2. What are the main determinants of the level of interest rates (real and nominal rates)?
3. How do we compute expected return, variance and standard deviation using time series of historical (past) rates of return?
4. Describe the main differences in the historical performance of returns on equity and long-term bonds.
5. Describe how we measure risk with non-normal distributions. What is the meaning of the term "fair game"?

SECTION - C

1. Explain the capital allocation choice across risky and risk-free portfolios.
2. Explain the simplifying assumptions of the basic version of CAPM.
3. Explain the trade-off between liquidity and expected returns.
4. Explain the role of diversification in eliminating the portfolio risk.
5. Explain the role of Security Market Line (SML).

CASE STUDY - 1

Case A

Consider a risky portfolio. The end-of-year cash flow derived from the portfolio will be either $50,000 or $150,000 with equal probabilities of .5. The alternative risk-free investment in T-bills pays 5 percent per year.

a. If you require a risk premium of 10 percent, how much will you be willing to pay for the portfolio?
b. Suppose that the portfolio can be purchased for the amount you found in.
   (a). What will be the expected rate of return on the portfolio?
c. Now, suppose that you require a risk premium of 15 percent. What is the price that you will be willing to pay?
d. Comparing your answers to (a) and (c), what do you conclude about the relationship between the required risk premium on a portfolio and the price at which the portfolio will sell?

CASE STUDY - 2

Consider the limit-order book depicted in Table below. The last trade in the stock took place at a price of $50.

Limit – Buy Order		**Limit-Sell Order**	
Price ($)	**Shares**	**Price ($)**	**Shares**
49.75	500	50.25	100
49.50	800	51.50	100
49.25	500	54.75	300
49.00	200	58.25	100
48.50	600		

a. If a market-buy order for 100 shares comes in, at what price will it be filled?
b. At what price would the next market-buy order be filled?
c. If you were the specialist, would you desire to increase or decrease your inventory of this stock?