

Duration: 2.5 hours

Marks: 75

NB:

1. All questions are compulsory
2. Figures to the right indicate total marks allotted to the question

## Q 1 (A) Multiple Choice Questions (Answer any 8)

- 1 \_\_\_\_\_ explains relation between systematic risk of a portfolio or security and market risk. 8
- a) Gamma
  - b) Beta
  - c) Theta
  - d) Rho
- 2 Hedging is a tool for \_\_\_\_\_ risk.
- a) Taking
  - b) Ignoring
  - c) Managing
  - d) Eliminating
- 3 A \_\_\_\_\_ is a line that plots the interest rates, at a set of point in time, of bonds having equal credit quality but different maturity dates.
- a) Arc Curve
  - b) Yield Curve
  - c) Bell Curve
  - d) Drawing Curve
- 4 \_\_\_\_\_ refers to acquisition of a company or a part of company with the help of debt capital.
- a) Fund of Fund
  - b) Mezzanine Capital
  - c) Angle's Capital
  - d) Leverage Buyout
- 5 \_\_\_\_\_ refers to sensitivity of changes in real domestic currency value of assets and liabilities.
- a) Forex Risk
  - b) Merchant Risk
  - c) Abnormal Risk
  - d) Normal Risk
- 6 \_\_\_\_\_ Strategy involves taking advantage of corporate events like mergers, acquisitions, share buyback, restructuring, etc.
- a) Directional
  - b) Event-driven
  - c) Non-directional
  - d) Static
- 7 \_\_\_\_\_ is defined as method of determining risks that could possibly prevent the program, enterprise, or investment from achieving its objectives.
- a) Risk Identification
  - b) Risk Monitoring
  - c) Risk Solution
  - d) Risk Analysis

- 8 \_\_\_\_\_ means making investment into products other than traditional ones like Equity, bond, cash etc.
- Common Investment
  - Alternative Investment
  - Unknown Investment
  - Undefined Investment
- 9 Modified duration is an extension of \_\_\_\_\_
- Macaulay duration
  - Short duration
  - Effective duration
  - Mezzanine duration
- 10 REIT Stands for \_\_\_\_\_
- Real Estate Individual Risk
  - Real Estate Investment Trust
  - Real Estate Innovation Trust
  - Real Executive Investment Trust

**Q 1 (B) State whether True or False (Any Seven)**

- Fund of funds is a Private Equity Fund
- Alpha is widely used measure to calculate market risk of a portfolio or security
- PE funds provide higher returns to investors as compared to stocks
- Hedge Funds are unregulated
- There are 3 kinds of Liquidity Risk
- LBO refers to acquisition of a company with the help of debt capital.
- Exposure netting requires creating a same exposure in the currency in which the firm has original exposure.
- VaR stands for Value at Risk
- Credit rating assess the credit worthiness of the investor
- An Inverted yield curve indicates investors are expecting recession.

**Q 2**

- Explain Risk Management and process of Risk Management
  - Distinguish between Mutual Funds and Hedge Funds
- OR
- Explain Business Risk and process of managing Business Risk
  - Discuss the reasons for Investing in Debt Market

**Q 3**

- The rate of return on Stock X & Y under different state of economy are presented below along with the probability of occurrence.

State of Nature	Probability	Return 'X'	Return 'Y'
Boom	0.5	30 %	35 %
Normal	0.3	35 %	40 %
Recession	0.2	25 %	30 %

- Calculate the expected return on X & Y
- Calculate the standard deviation of stock X & Y

- (B) With the help of the following information determine which stocks are overvalued and which are undervalued 7

Stocks	Actual Returns (%)	Beta
A	19	1.6
B	15	0.8
C	23	1.2

Return on Market Portfolio = 20%

Risk free return = 15%

OR

- (C) Calculate the value of the bond based on the information given below: 8

Face Value - Rs 1,000

Coupon Rate - 15 % per annum paid annually

Maturity – 8 Years

Required rate of return – 16 %

The bond is redeemed at a premium of 14 %

- (D) A bond is currently trading at Rs 105 and have a face value of Rs 100. 7  
Maturity is of 5 years and coupon rate is 10% (paid annually). What should be the YTM of the bond.

Q 4

- (A) Explain Financial Risk and types of Financial Risk 8

- (B) Explain different methods of managing risk in the forex markets 7

OR

- (C) Explain categories of Private Equity 8

- (D) Explain characteristics of Option Contract 7

Q 5

- (A) Explain Bond Market. Elaborate on characteristics of Bond Market 8

- (B) Explain the concept of Operational Risk 7

OR

- (C) Write Short notes on: (answer any three) 15

- i. Euro Bonds
- ii. Chief Risk Officer
- iii. Convexity
- iv. Political Risk
- v. Characteristics of Futures

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