

M.B.A. Semester-III Examination
INVESTMENT SCIENCE
Paper-MBA/3105/F

Time : Three Hours]

[Maximum Marks : 70

- Note.:**— (1) Figures to the right indicate marks.
 (2) Attempt **ALL** the questions.

SECTION-A

1. (a) "Investment is well grounded and carefully planned speculation". In the light of this statement, explain and differentiate between 'Investment' and 'Speculation'. How do they differ from 'Gambling' ? 14

OR

- (b) "Systematic risk cannot be controlled but unsystematic risk can be reduced". Elaborate. 14

SECTION-B

2. (a) "The stock exchange is the pulse of the economy". Do you agree with this statement ? Justify your answer. 7
- (b) Suppose a company issues right shares which increases the market capitalisation of the shares of that company by say, Rs. 200 crores. The existing base market capitalisation (old base market capitalisation), say is Rs. 4,450 crores and the aggregate market capitalisation of all the shares included in the index before the right issue is made is, say Rs. 6781 crores. You are required to calculate new base market capitalisation. 7

OR

- (c) What is Commercial Paper ? What features make it attractive to money market investors ? 7
- (d) Suppose a banker's acceptance has a face value of Rs. 10 crore that will be paid in 90 days. If the interest rate, quoted on a discount basis, is 5 percent. What is the current price of the acceptance ? 7
3. (a) "Time value of money is helpful in capital budget". Explain. 7
- (b) Mr. Shyam deposits Rs. 5,000, Rs. 10,000, Rs. 15,000, Rs. 20,000 and Rs. 25,000 in his saving bank account in year 1, 2, 3, 4 and 5 respectively. Interest rate is of 6 percent. Calculate his future value of deposits at the end of 5 years. 7

OR

- (c) What is NPV ? Discuss the advantages and limitations of NPV method. 7
- (d) A firm has two investment opportunities, each costing Rs. 1,00,000 and each having an expected profit as shown below :

Year	1	2	3	4
Project A (Rs.)	50,000	40,000	30,000	10,000
Project B (Rs.)	20,000	40,000	50,000	60,000

After giving due consideration to the risk criteria in each Project, the management has decided that Project A should be evaluated at a 10 percent cost of capital and Project B, a risky project with a 15 percent cost of capital.

Compute the NPV and suggest the course of action for the management if :

- (a) Both the Projects are independent.
- (b) Both are mutually exclusive. 7

SECTION-C

4. (a) What does the term duration mean to bond investor and how does the duration on a bond differ from its maturity ? 7
- (b) Distinguish between current yield, yield to maturity and coupon-rate. Discuss the concept involved. 7

OR

- (c) What is bond immunization ? Describe the process of bond portfolio immunization and explain why an investor would want to immunize a portfolio. 7
- (d) Discuss the recent developments in the corporate bond market in India. 7

SECTION-D

5. A firm belongs to a risk class for which the appropriate capitalization rate is 10 percent. It has 25,000 shares outstanding and selling at Rs. 100 each. The firm's expected earnings available to shareholders are Rs. 6,00,000 and it has an investment proposal costing Rs. 8,00,000. The firm is contemplating the declaration of Rs. 14 as a dividend at the end of current financial year.

Assuming MM assumptions, you are required to compute the value of the firm when :

- (a) Dividends are declared. 7
- (b) When dividends are not declared. 7