

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

Final Year First Semester Examination in Bachelor of Commerce (Specialization
in Accounting and Finance)-2013/2014(April/May 2017)(Special Repeat)

DAF 4043 Portfolio Investment Analysis

Time Allowed: 03 Hours

Answer All Questions

Non Programmable Calculators are permitted.

(i) Explain the difference between the terms "Finance" and "Investment"
(10 Marks)

(ii) Explain the followings:

- a) Money Market and Capital Market
- b) Primary Market and Secondary Market

(10 Marks)

(Total 20 Marks)

(i) Calculate the Expected Rate of Return and the Standard Deviation of the Returns for an investment from the following information.

Possible Returns (%)	12.5	23.4	13.6	02.5	-14.2
Probabilities	0.12	0.24	0.21	0.25	0.18

(10 Marks)

(ii) Securities J and K have the following characteristics:

Probability	Possible Return (%)	
	Security J	Security K
0.10	-10.5	30.5
0.30	12.6	15.0
0.35	10.0	05.8
0.25	25.4	-12.6

Required:

Calculate the following:

- (a) The Expected Rate of Return and Standard Deviation of returns for security.
- (b) The Expected Rate of Return and the Standard deviation of the return of the portfolio of J and K, combined with weights of $\frac{2}{3}$ and $\frac{1}{3}$ respectively.

(20 M)

(Total 30 M)

03. (I) In terms of the Markowitz portfolio model, explain, how an investor identifies her optimal portfolio. What specific information does an investor need to identify the optimal portfolio?

(10 M)

(II) If the risk-free rate of return is 6% and the return on the market portfolio is 12%, what is the expected return on an asset having a Beta of 1.8 according to the CAPM?

(10 M)

(III) An Investor owns a portfolio of four securities. The characteristics of the securities and their amount of investment in the portfolio are presented below:

Security	Beta	Investment (Rs.)
A	0.80	100,000
B	1.25	100,000
C	1.00	75,000
D	0.60	125,000

Required:

- (a) What is the expected rate of return of this portfolio if the risk-free rate of return is 9% and the expected market rate of return is 16%?
- (b) What is the risk of the portfolio?

(10 M)

(Total 30 M)

(i) From the following data compute beta of security j

$$\sigma_j = 15.8\% \quad \sigma_m = 6.5\% \quad \text{Cor}_{jm} = +0.67$$

(05 Marks)

(ii) An investor holds an investment on the bonds of LDY plc having a par value of Rs.1000 each with coupon rate of 14% per annum payable semi annually and the maturity of 10 years.

(i) What is the value of a bond today if the market rate of return is 12%?

(ii) What will be the value of the bond if the market interest rate increases to 16% at the end of one year from today?

(iii) If the value of the bond is Rs.1200 after two years from the date of issue, what would be the YTM of the bond?

(10 Marks)

(Total 20 Marks)