GOVERNMENT COLLEGE UNIVERSITY, FAISALABAD

Model Paper

M. Com. Part –II
Course Code: MC-610 Course Title: Investment Analysis & Portfolio Management

OBJECTIVE PART

Time Allowed : 30 Minutes Marks :20

Note: This question No. 1 is compulsory and its all parts carry equal marks. Please attempt the questions on the same paper and return it to the Center Superintendent with in the time allowed.

Q. 1(A): Mark (✓) on correct answer from the following: 10 x 1 = 10

1. Which of the following is the ratio of share price to stockholder equity as measured on the balance sheet?
   a) Price to book value ratio
   b) Price to sales ratio
   c) Leverage ratio
   d) Debt coverage ratio

2. Which of the following trading systems is used by the Karachi Stock Exchange?:
   a) ISECTS
   b) LOTS
   c) KATS
   d) PETS

3. The S&P 500 Composite Stock Index is favored by most institutional investors and money managers. What does S&P stands for?
   a) Sophisticated and Poised
   b) Standard and Poor
   c) Stylish and Permanent
   d) Sojourn and Perennial

4. Which of the following depicts a bullish trend in stock market?
   a) Stock price drop below support level
   b) Stock price rises above support level
   c) Stock price drop below resistant level
   d) None of given options

5. Which one of the following is correct formula for calculating gross margin?
   a) Net Profit/Net Sales
   b) Gross Profit/Net Sales
   c) Net income/Net Sales
   d) Gross Profit/credit Sales

6. In which of the following accounts the trading charges are high?
   a) Savings account
   b) System account
   c) Personal account
   d) Cash account

7. Which one of the following is correct formula for calculating operating margin?
   a) Net Profit/Net Sales
   b) Net income/Net Sales
   c) Operating income/Net Sales
   d) Operating income/credit sales

8. _____ do not change the collective wealth of shareholders.
   a) Stock splits
   b) Bonus shares
   c) Right shares
   d) All of the following

9. Which of the following ratios are of more concern for the shareholders?
   a) Liquidity and leverage
   b) Profitability and activity
c) Profitability and leverage  

10. Primary market refers to the market ___________.
   a) That attempts to identify mispriced securities and arbitrage opportunities
   b) In which investors trade already issued securities.
   c) Where new issues of securities are offered.
   d) In which securities with custom-tailored characteristics are designed

Q. 1(B): Indicate whether following statements are True / False  

10 × 1 = 10

1. Investments is the study of the process of committing funds to one or more assets

2. Risk is the possibility that the realized return will be different than the expected return

3. The examples of Marketable Financial assets are, “Savings accounts and bonds, certificates of deposit, money market deposit accounts”

4. Money market securities are those marketable debts with maturity greater than one year and ownership shares

5. Govt. securities always bear high level of risk.

6. Failure of a product line of a company is an example of Unavoidable risk

7. Debt is costly source of finance for a company

8. CAPM means the basic theory that creates link between risk and return in group of financial assets

9. Diversifiable or nonsystematic risks are those risks which are unique to individual companies

10. Security Market Line (SML) is the non-linear relationship between an asset’s risk and its required rate of return
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SUBJECTIVE PART

Time allowed: 02:30 Hours Marks :80

Note: Attempt any four questions. All questions carry equal marks.

Question # 2
Marks
Calculate the expected return from the given portfolio of escort investment co.

<table>
<thead>
<tr>
<th>Securities</th>
<th># of share held</th>
<th>Market Price</th>
<th>Expected Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sitara Company</td>
<td>8,000</td>
<td>45</td>
<td>10%</td>
</tr>
<tr>
<td>Rafhan Maize Product</td>
<td>10,000</td>
<td>145</td>
<td>12%</td>
</tr>
<tr>
<td>PSO</td>
<td>23,000</td>
<td>90</td>
<td>7%</td>
</tr>
<tr>
<td>Noor Pharma</td>
<td>5,000</td>
<td>80</td>
<td>8%</td>
</tr>
</tbody>
</table>

Question # 3
Marks
Suppose you are going to purchase the shares of dell company what value you will assign each share on the bases of following facts.
Last year dividend: $2, 10% increase is expected in this dividend, risk free return is 8% and market rate of return 14%, while the stock beta is 1.3.

Question # 4
Marks
Define investment; also explain why peoples invest money (advantages of investment).

Question # 5
Marks
Define risk, also explain avoidable (Diversifiable) risk and Unavoidable (Non-diversifiable).

Question # 6
Marks
An investor invest the amount of $500 millions in following securities

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment (Millions)</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>150</td>
<td>1.0</td>
</tr>
<tr>
<td>B</td>
<td>60</td>
<td>1.0</td>
</tr>
<tr>
<td>C</td>
<td>240</td>
<td>1.5</td>
</tr>
<tr>
<td>D</td>
<td>50</td>
<td>0.5</td>
</tr>
</tbody>
</table>

a) Calculate weighted average Beta?
b) What is expected rate return on this fund if risk free return is 7% and market risk premium is 5%.

Question # 7
Marks
Define and explain briefly Arbitrage Pricing Theory (APT).