[This question paper contains 2 printed pages.]

Sr. No. of Question Paper	:	**6193**
Unique Paper Code	:	2924001005
Name of the Paper	:	Essentials of Financial Investment
Name of the Course	:	BBA (GE)
Semester	:	II
Duration	:	3 Hours
Maximum Marks	:	90

Instructions for the Candidates

1. Write your Roll No. on the top immediately upon receipt of this question paper.
2. **All questions** carry equal marks.
3. Attempt all questions.
4. Use of simple calculator is allowed

1. How does diversification contribute to risk management in investment portfolios, and what strategies can individuals use to achieve diversification effectively?

[15]

2. Ms. Priya has a diverse portfolio containing stocks, bonds, and real estate investments. Recently, she's been exploring ways to optimize her investment strategy to manage risks better and potentially increase her returns. With this goal in mind, Priya is considering applying the principles of diversification, hedging, and arbitrage. She's aware that diversification can help spread her investment risks, but she's also curious about how hedging could protect her from sudden market downturns. Additionally, Priya has heard about arbitrage opportunities but is uncertain how to identify or exploit these in practice.
Given Priya's situation and her investment goals:

   a. Explain how diversification might benefit Priya's portfolio.

   b. Discuss a potential hedging strategy Priya could use to protect her investments, especially focusing on her stock holdings.

   c. Identify an arbitrage opportunity that could arise in Priya's investment scenario, explaining how she could take advantage of it to secure a profit.

[15]

3. **(i)** Mr X wants to analyse the performance of ABC Ltd's shares, which are currently available at a price of Rs 160 as of 31st December 2016. The share price and dividends paid at the end of years (31st Dec) 2012, 2013, 2014, 2015, and 2016 were as follows.

Years	Share Price	Dividend
2012	118	NIL
2013	130	5
2014	120	NIL
2015	140	10
2016	160	5

Calculate the average return of ABC Ltd's shares. Also, interpret the results.

[7]

(ii) A bond of Rs 1000 face value carrying a coupon rate of 14% is redeemable at par after 10 years interest is payable annually. Find out the intrinsic value of the bond if the required rate of return is

a. 12% b. 14%

[8]

4. **(i)** What are the distinctions among Economic Analysis, Industry Analysis, and Company Analysis, along with examples within the framework of Fundamental Analysis?

[10]

(ii) Calculate the average return using geometric mean from the following data.

Year	1	2	3	4
Return	18	10.17	-7.69	16.67

[5]

5. **(i)** The following information is available with respect to the rate of return on two securities, Q and S.

Condition	Probability	Rate of return on Q	Rate of return on S
Recession	0.30	-0.20	0.05
Normal	0.40	0.25	0.10
Boom	0.30	0.40	0.12

(a) Which security is less risky and why?

(b) Suppose an investor has Rs 10,000 to invest Rs 5,500 in security Q and the remaining in security S. What will be the expected return on his portfolio?

[10]

(ii) What is the difference between systematic risk and unsystematic risk?

[5]

6. Explain any **three** of the following.

(i) Real Investment

(ii) Absolute Return

(iii) Risk-Return trade-off

(iv) Portfolio diversification

[3 X 5]