Sr. No. of Question Paper	:	3535
Unique Paper Code	:	1292400 1005
Name of the Paper	:	Essentials of Financial Investment (GE)
Name of the Course	:	
Semester	:	III / V / I
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. Use of Simple Calculator is allowed.
3. All questions carry equal marks.
4. Attempt all questions.

1. Discuss the valuation of Fixed Income Securities. Explain how interest rate changes impact bond prices and yields.

[15]

2. Priya is a 35-year-old professional who wants to invest her savings to build a diversified portfolio. She is evaluating two investment options:
   - Portfolio X: A mix of blue-chip stocks from established companies. The annual returns for the past five years are 12%, 10%, 9%, 11%, and 13%.
   - Portfolio Y: Comprises stocks of small-cap companies with high growth potential but greater volatility. The annual returns for the past five years are 18%, 5%, 25%, 8%, and -10%.

   Priya is concerned about inflation (4%) and taxes (30%) and their impact on her investment returns.

   Given the above context, answer the following questions.

   a. Calculate the Average Return and Holding Period Return (HPR) for both portfolios.
   b. Compute the Standard Deviation (Total Risk) for each portfolio and determine which portfolio has higher risk.
   c. Calculate the Post-Tax Return and Real Return for both portfolios, considering inflation and taxes.

[15]

3. The returns on two securities under four possible states of nature are given below:

State of Nature	Prob. (Pi)	RA (%)	RB(%)
1	0.20	6	8
2	0.30	10	12
3	0.35	15	18
4	0.15	20	28

Using the above information, answer the following questions.

a. Determine the standard deviation (risk) for Security A and Security B.

b. Compute the covariance between the returns of Security A and Security B.

c. Find the coefficient of correlation between the returns of Security A and Security B.

[15]

4. The beta of a stock is 1.5, and the standard deviation of its return is 20%. The S.D. of the market portfolio is 10%, and the expected market return is 15%. The risk-free rate is 5%. Calculate :
   a. Market risk premium

   b. Risk premium of the stock

   c. Expected return on the stock

   d. Abnormal return of the stock (if any) if the actual average return on this stock is 13%.

   e. Unsystematic risk of the stock

[15]

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

Year	1	2	3	4
Return	12	8.5	-5	10

6.

[5]

(b) Define Risk-Return Trade-Off. Discuss its significance in investment decision-making.

[10]

7. Explain any three of the following

   a. Unsystematic Risk

   b. Arbitrage
   c. Speculation
   d. Real Return

[3 X 5]