K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,

Vidyavihar, Mumbai- 400077

PGDM (EX) – 2017 – 18 II TRIM

Financial Institutions & Markets

Max. Marks: 50 **Time : 3 Hours** **Date: 22/03/2018**

Duration: 3 Hrs Note: Answer any five(5*10=50) marks

Question No: 1

"The interest rate is an effective weapon of the Reserve Bank of India. The level of existing interest rate is of pivotal importance to the economy. Interest rates are employed to influence the overall economic activity."

In this backdrop, you are required to explain the following

i) How is the interest rate in an economy determined?

ii) What are the factors that influence interest rates? Explain in brief.

Question No.2

From the following information calculate sharpe Ratio, Treynor Ratio and Jenson Ratio and comment on portfolio performance. Give the ranking to portfolios according to all the ratios.

PORTFOLIOS

	A	**B**	**C**	**D**
Beta	1.10	0.8	1.8	1.4
Return (%)	14.5	11.25	19.75	18.5
S.D(%)	20.0	17.5	26.3	24.5

Risk free rate of return is 6% and Market return is 12%.

Question No.3

A bond with 10% coupon rate issued four years ago is redeemable after five years from now at a premium of 10%.The interest rate prevailing in the market currently is 14% .

i)Explain types of risk involved bonds
ii)What is duration of the bond calculate duration for the above data and interpret the number
iii)If current interest rates are below the interest rates of bond which you are holding how your bond yield is effected explain

iv) If current interest rates are above the interest rates of bond which you are holding how your bond yield is effected explain

PV factors @14% are 0.909, 0.826, 0.751, 0.683, and 0.621

Question No.4

Consider the following information

Particulars	**Growth Rate%**
Firm with no growth	0
Firm with normal growth rate	7
Firm with super normal growth	12

The expected earnings per share and dividend per share of each of the above firms are Rs 5.00 and Rs 4.00 respectively. The required rate of return from equity is 15%.

Calculate the stock price, dividend yield, capital gain yield and P/E ratio for all the above cases with the given information. IF P/B of normal growth firm is 1.2 interpret the number and evaluate the firm.

Question No.5

Omega Company is into cement production, Finance manager is looking for some short terms funds, which market he can access and what type of instruments available to him explain in detail.

Question No.6

i) A chemical company paid a dividend of Rs 2.75 during the current year. Forecasts suggest that earnings and dividends of the company are likely to grow at the rate of 8% over the next five years and at the rate of return of 20 percent on these shares. What is the present value of stock?

ii) You have decided to buy 500 shares of IT Company with the intention of selling out at the end of five years. You estimate that the company will pay Rs 3.50 per share as dividends for the first two years and Rs 4.50 per share for the next three years. You further estimate that, at the end of the five year holding period, the shares can be sold for Rs 85. What would you be willing to pay for these shares if your required rate of return is 12 percent?

Question No:7 Explain Dutch auction book building method with a hypothetical example and also write in brief GSO.