K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH, VIDYAVIHAR, MUMBAI- 400077

Program: PGDM (FS), *Batch 16-18, Trimester III*

Subject: Fixed Income Securities

(End Term Examination)

Maximum Marks: 50 **Date: 6th April 2017**

Duration: 3.00 hours

Instructions: First question is compulsory.

Q.1 Do Bond Analysis by using the following data: **10marks**

Face Value	**Rs1000.**
Coupon	**9% Annually**
YTM	**6yrs**
Current price	**1046**

a. **What is the YTM of Bond ?**
b. **What is the Duration of Bond ?**
c. **What is the conceptual difference between YTM and Duration?**
d. **What is the Convexity of Bond?**
e. **If the yield of the bond increases by 50 basis points what will be the percentage change in the bond price?**
f. **2yrs from now Bond will sell at a yield of 8.5% and the coupon will be reinvested in a short term securities at a rate of 7%. What is the expected annualized return over the 2yr period?**

Q.2 Explain the determinants of Interest rate of Bonds? **10 marks**

OR

Analyze types of bond with their utility in terms of investment goal.

Q.3 State the important Bond Pricing relationships. With illustrations **10 marks**

OR

Discuss Passive strategies for managing a Bond Portfolio. And How is that different

from Active strategies in terms of its usage.

Q.4 What is an Interest Rate Swaps and How is it calculated?

Q.5 a. 1 Bond prices are less sensitive to changes in the interest rates when the bonds have__. 1 Mark

(a) small coupons and long maturity

(b) small coupons and short maturity

(c) large coupons and long maturity

(d) large coupons and short maturity

b. Choose the instrument from the following which does not have reinvestment risk: 1 Mark

(a) Short term bonds

(b) Corporate Bonds with Call option

(c) Zero coupon bonds

(d) Government securities

c. Which of the following is not a fiscal policy measure? 1 Mark

(a) Reducing Cash Reserve Ratio

(b) Increasing taxes

(c) Reducing subsidies

(d) Reducing Government borrowing

d. Mr. A invested in tradable bonds of a corporate paying annual coupon of 10.5%. The tenure of the bonds is 9 years and he desires to hold them till maturity. What would be the impact declining interest rate on his cash flow during this tenure? 2 Marks

(a) The coupon rate would vary with the same margin as the originally contracted 10.5% is from the Repo rate

(b) He would stand to receive larger than contracted coupon payments proportionate to the appreciation in bond prices in secondary market

(c) He would receive lower than contracted coupon payments proportionate to the decline in interest rates

(d) No impact, as he has no intention to sell the bonds and coupon payments would not be impacted by declining interest rates

e. Businessman wants to achieve the goal of marriage of his daughter after 10 years. The funds required would be Rs. 25 lakh at then costs. He wants to invest monthly for the goal. You suggest an asset allocation strategy where he should invest monthly in equity and debt in ratio 65:35 for 9 years, and shift the entire accumulated amount in these funds to liquid fund in the last year. If the returns expected from equity, debt and liquid funds in this period are 12 % p.a., 9 % p.a. and 5 % p.a., respectively, what approximate amount per annum is required to be allocated to equity and debt schemes?

(a) Rs. 12,679 & Rs. 8,453

(b) Rs. 9,485 & Rs. 6,323

(c) Rs. 8,601 & Rs. 4,631

(d) Rs. 12,075 & Rs. 8,050 **5 Marks**