K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
MMS / PGDM (ELECTIVE) – VI 2016 – 18 BATCH
Security Analysis & Portfolio Management
(End Term Exam)

Max Marks : 50 Time : 3 Hours Date : 12/04/2018

N.B

1) Attempt any 5 questions

2) Each Question carries 10 marks

Q1.**Barings Bank, PLC.**

In February, 1995, Nick Leeson, a "rogue" trader for Barings Bank, UK, single-handedly caused the financial collapse of a bank that had been in existence for hundreds of years. In fact, Barings had financed the Louisiana Purchase between the US and France in 1803. Leeson was dealing in risky financial derivatives in the Singapore office of Barings. He was the lone trader there and was betting heavily on options for both the Singapore (SIPEX) and Nikkei exchange indexes. These are similar to the Dow Jones Industrial Average (DJIA) and the S&P500 indexes here in the US.

In the early 90s, Barings decided to get into the expanding futures/options business in Asia. They established a Tokyo office to begin trading on the Tokyo Exchange. Later, they would look to open a Singapore office for trading on the SIMEX. Leeson requested to set-up the accounting and settlement functions there and direct trading floor operations (different from trading). The London office granted his request and he went to Singapore in April, 1992. Initially, he could only execute trades on behalf of clients and the Tokyo office for "arbitrage" (Lesson 10) purposes. After a good deal of success in this area, he was allowed to pursue an official trading license on the SIMEX. He was then given some "discretion" in his executions meaning; he could place orders on his own (speculative, or "proprietary" trading).

Even after given the right to trade, Leeson still supervised accounting and settlements. And there was no direct oversight of his "book" and he even set-up a "dummy" account in which to funnel losing trades. So, as far as the London office of Barings was concerned, he was always making money because they never saw the losses and rarely questioned his request for funds to cover his "margin calls" (Lesson 3). He took on huge positions as the market seemed to "go his way." He also "wrote" options, taking-on huge risk (Lesson 10).

He was, in fact, perpetuating a "hoax" in his record-keeping to hide losses. He would set the prices put into the accounting system and "cross-trade" between the legitimate, internal, accounts and his fictitious "88888" account. He would also record trades that were never executed on the

Exchange.

In January, 1995, a huge earthquake hit Japan, sending its financial markets reeling. The Nikkei crashed, which adversely affected Leeson's position (remember, he had been selling Options). It was only then that he tried to hedge his postions, but it was too late. By late February, he faxed a letter of resignation, and when his position was discovered, he had lost ($1.4 billion USD). Barings, the bank which financed the Louisiana Purchase between the US and France, became insolvent and was sold to a competing bank for $1.00!

From the above case identify and explain in details the risks faced by a commercial bank. (10 Marks)

Q2. a .Explain Efficient Market Hypothesis with suitable example related to India . (5 Marks)

b. Explain Fundamental Analysis (5 Marks)

Q3. a. Explain the concept Risk and return? (5 Marks)

b. Explain Systematic and Unsystematic risk (5 Marks)

Q4. a. Explain CML with diagram.(5 Marks)

b. Explain SML with diagram. (5 Marks)

Q5. a. In how many years will Rs 100000 double to 200000 at 8% interest (5 Marks)

b. In how many years will Rs 100000 triple to 300000 at 8% interest (5 Marks)

Q6. a. Explain the YTM approach for computing the returns of debt. (5 Marks)

b. What are derivatives , explain difference between Forwards and Futures (5 Marks)

Q7. Short Note (Any two for 5 Marks each)

a. Risk Returns Tradeoff

b. MIBOR

c. T Bills

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