

K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

PGDM (FS) Trimester - III (2017-2019)

End Term Examination

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| Subject: Fixed Income Securities | Specialization: Finance |
| Date of Exam: 30th March 2018 | Marks: 50 |
| Duration: 3 Hours | Time: 10.30a.m -1.30p.m |

Instructions

Q 1 is compulsory and would carry **20 marks**. In addition to Q 1, **there are Five Questions**. Each question would carry **10 marks**. Attempt any Four out of the remaining Five Questions.

Q.1) a) Consider three bonds, A, B and C

| | Bond A | Bond B | Bond C |
|---|------------|------------|------------|
| Face value | 1,000 | 1,000 | 100 |
| Coupon (interest rate) payable annually | 12 percent | 13 percent | 14 percent |
| Years to maturity | 5 | 6 | 7 |
| Redemption value | 1,000 | 1,000 | 100 |
| Current market price | Rs.900 | Rs.850 | Rs 92 |

What are the (a) yields to maturity (use the approximate formula) (b) durations, and (c) volatilities of these bonds?

b) Read the following Press release from RBI and answer Any Two question

The Reserve Bank of India has announced the auction of 91 day Government of India Treasury Bills for notified amount of Rs. 8000 cr.

The auction will be conducted on April 5, 2018 using “Multiple Price Auction” method. The competitive bids for the auction should be submitted in electronic format on the Reserve Bank of India Core Banking Solution (E-Kuber) system between 10.30 a.m. and 12.00 noon on Thursday, April 05, 2018. The non-competitive bids should be submitted between 10.30 a.m and 11.30 a.m. Results will be announced on the same day. Payment by successful bidders will be on Friday, April 06, 2018

1) What are different types of auction in sale of Government security? Who are the participants in the auction process?

- 2) Who are non –competitive bidders? At what price do they receive the allotment of T-bill?
Will there be any change in yield of T-bill, if RBI reduces the SLR rate in its monetary policy? Explain

Q, 2) Attempt Any 1

a) A Rs.1000 par value bond bears a coupon rate of 10 percent and matures after 5 years. Interest is payable semi-annually. Compute the value of the bond if the required rate of return is 18 percent.

b) 1) Explain Tracking Error and TED Spread

2) How are the investment Portfolio of Banks (including SLR securities and non-SLR securities) Classified?

Q.3) Attempt Any 1

a) A zero coupon bond of Rs 100,000 has a term to maturity of six years and a market yield of 8 percent at the time of issue.

(a) What is the issue price?

(b) What is the duration of the bond?

(c) What is the modified duration of the bond?

(d) What will be the percentage change in the price of the bond, if the yield declines by 0.3 percentage points (30 basis points)

b) “Stocks are considered to be risky, but bonds are not” This is not fully correct. Elucidate

Q.4) Attempt Any 1

a) RBI to conduct open market sale of Govt bonds for Rs 10,000 crore” What do you understand by above statement? Under what condition RBI conducts this kind of operation.

b) Explain Bond value theorems with examples

Q.5) Attempt Any 1

a) Explain Bond Strategies with example

b) Discuss the term structure of Interest rate

Q.6) Attempt Any 1

a) Explain different types of bonds by altering various features of bonds

b) Distinguish between various Bond-Yield Measurers