DHANAMANJURI UNIVERSITY

BA 3rd SEMESTER (CBCS)
2021
DECEMBER

ECONOMICS
(SKILL ENHANCEMENT COURSE)

SEC-201
FINANCIAL ECONOMICS

Full Mark: 100

The figures in the margin indicate full marks for the questions.

SECTION A
Answer **any four (4)** of the following questions:

1. What is capital budgeting? Discuss the techniques used in capital budgeting. 4+6=10
2. A project has an immediate cash outflow of Rs. 7000 and then, cash inflows of Rs. 4000 in first and second years. Find the IRR by using discount rates at 5% and 20%. 10
3. Why cash flows are discounted against its hurdle rate in corporate finance? Find the present value of a future cash flow of Rs. 100 which is to be received in four years when discounted at 15%. 5+5=10
4. How yields are different from returns? What is the return on investment (ROI) of Rs. 1000 invested in a project that generated a return of Rs. 200 in a year? 5+5=10
5. Describe the trade-off between risk and return of a financial investment. 10
6. How does bond immunisation work? What are the special considerations with bond immunisation? 5+5=10

SECTION B
Answer **any four (4)** of the following questions:

1. Describe Markowitz's Efficient Frontier with the help of a suitable diagram. 15
2. What is expected return on an investment? Calculate the expected return of a single investment in three assets:
   Asset A: 20% probability of generating 15% returns
   Asset B: 50% probability of generating 10% returns
   Asset C: 30% probability of generating 5% loss 5+10=15
3. Discuss the significance of diversification in the theory of portfolio management. 15
4. Briefly write on the role of *Beta* in Capital Asset Pricing Model (CAPM) by William Sharpe 15
5. What is a fixed income security? Describe various types of yield curves with suitable diagrams. 5+10=15
6. Given portfolio of an investment:

Portfolio		Return	Expected Return
1.	Stock A	7	9
	Stock B	13	9
2.	Stock A	11	9
	Stock B	5	9

Show the risk of investment on this portfolio is nil by calculating coefficient of correlation. 15

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