SARDAR PATEL UNIVERSITY
BBA (ITM) SEM: VI EXAMINATION
Saturday, 30th March 2019
10:00 AM to 12.00 PM
UM06EBBI09: ADVANCED FINANCIAL MANAGEMENT - II

Total Marks: 60

Note: All working notes are part of the answer.

Q:1[A] Happy Limited is considering accepting one of the two mutually exclusive **[08]** projects M and N.The cash flows and probabilities are estimated as under:

Project M		Project N	
Cash Flow (Rs)	Probability	Cash Flow (Rs)	Probability
12000	0.10	8000	0.10
14000	0.20	12000	0.25
16000	0.40	16000	0.30
18000	0.20	20000	0.25
20000	0.10	24000	0.10

Which project is found to be more risky according to standard deviation method?

[B] Explain the certainty equivalent method of adjusting risk. **[07]**

OR

Q:1[A] Explain in brief following methods of risk evaluation: **[08]**
1) Decision Tree Approach 2) Sensitivity Analysis

[B] Anand Limited is considering the purchase of a new machine. Two **[07]** alternative investments X and Y are available each costing Rs. 75,000.Cash inflows are expected to be as follows:

Year	Cash inflows (Rs.)	
	Machine X	Machine Y
1	30,000	40,000
2	30,000	30,000
3	20,000	20,000
4	10,000	10,000
5	5,000	10,000

Risk free rate of return is 10%. Risk premiums are 2% and 7% respectively for investment X and Y. Which investment should be preferred?

Q:2[A] Consider the two stocks A and B for which returns under different **[08]** conditions of economy are given as below. Find out expected return and standard deviation for each stock.

Condition of Economy	Prob.	Return (%)	
		Stock A	Stock B
Boom	0.30	16	40
Normal	0.50	11	10
Recession	0.20	6	-20

[B] What is CAPM? Discuss assumptions and limitations of CAPM. **[07]**

Q:2[A] Define the term risk. Explain types of risk with suitable examples. **[08]**

[B] The total return from stock A over a five year period are as follows: **[07]**

Year	Total Return (%)
1	19
2	14
3	22
4	-12
5	5

Calculate: 1) Arithmetic Mean 2) CWI 3) Variance

Q:3 Discuss growth investing and value investing as a style of investment. **[15]**

OR

Q:3[A] Explain efficient market theory with its three forms. **[09]**

[B] Write a short note on: Portfolio Risk /Return. **[06]**

Q:4 Explain all external and internal techniques for foreign exchange risk management. **[15]**

OR

Q:4[A] What is exchange rate? Explain major determinants of exchange rates. **[09]**

[B] Explain concept of: **[06]**

    (1)   Spot Rate

    (2)   Cross rate

    (3)   Spread

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