

# Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR FIRST SEMESTER EXAMINATION -MAY/JUNE 2017

EMG 213-2 Investment Management



## Instructions to candidates:

No. of pages : Three (03)  
No. of questions : Five (05) Essay  
Time : Two (02) Hours  
Marks allocated : 100 Marks  
Answer **only four (04)** questions.

Index No:

01.

- i) Differentiate Money Market from Capital Market. (05 Marks)
- ii) Differentiate Real investments from Financial investments. (05 Marks)
- iii) Briefly explain the economic functions performed by financial markets. (07 Marks)
- iv) Briefly explain the determinants of Stock Market development with examples. (08 Marks)

(Total Marks-25)

02.

- i) Investment environment can be defined as the existing investment vehicles in the market available for investors and the places for transactions with these investment vehicles.  
Discuss the components of the investment environment providing examples for each. (10 Marks)
- ii) Investors tend to follow different investment philosophies as they move through different stages of the life cycle. Discuss (15 Marks)

(Total Marks-25)



03.

- i) Differentiate 'Business Risk' from 'Financial Risk' with suitable examples.

(07 Marks)

- ii) Amazon PLC stocks are having the following probability distribution of return.

Possible Returns (%)	Probability
-25	0.05
-10	0.10
0	0.10
15	0.15
20	0.25
30	0.20
35	0.15

- a. Calculate the expected return.

(08 Marks)

- b. Calculate the standard deviation of returns.

(10 Marks)

(Total Marks-25)

04.

- i) Generally individuals show a time preference for money. Give reasons for such a preference.

(04 Marks)

- ii) Suppose you have deposited Rs. 1000 in a bank account and banks are currently paying an interest rate of 6 percent per year on deposits. What will be the value of the investment after 5 years?

(07 Marks)

- iii) You can earn 8 percent interest, compounded annually. How much you should deposit today to withdraw Rs.10,000 in 6 years?

(07 Marks)

- iv) What is the future value of a 5-year ordinary annuity with annual payments of Rs.200, evaluated at a 15 percent interest rate?

(07 Marks)

(Total Marks-25)

05. i) Differentiate 'Independent projects' from 'Mutually exclusive projects' (05 Marks)

ii) JFI Corporation is considering investing in either of two competing projects that will allow the firm to eliminate a production bottleneck and meet the growing demand for its products. The firm's engineering department narrowed the alternatives down to two projects called Low Tech (LT) and High Tech (HT). Working with the accounting and finance personnel, the firm's Chief Financial Officer developed the following estimates of the cash flows for LT and HT over the relevant 6-year time horizon. The firm has an 11 percent required return and views these projects as equally risky.

	Project LT	Project HT
	(Rs)	(Rs)
<b>Initial Outflow</b>	<b>670,000</b>	<b>940,000</b>
<b>Year (t)</b>	<b>Cash Inflow</b>	
1	250,000	170,000
2	200,000	180,000
3	170,000	200,000
4	150,000	250,000
5	130,000	300,000
6	130,000	550,000

- a) Calculate the net present value (NPV) of each project, assess its acceptability, and indicate which project is best using NPV. (08 Marks)
- b) Calculate the profitability index (PI) of each project, assess its acceptability, and indicate which project is best using PI. (08 Marks)
- c) Which of the two mutually exclusive projects would you recommend for JFI Corporation to undertake? Why? (04 Marks)

(Total Marks-25)

