Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR FIRST SEMESTER EXAMINATION –JULY/AUGUST 2016

EMG 213-2 Investment Management

Uva Wellassa University

Instructions to candidates:

No. of pages : Three (03)

No. of questions : Four (04) Essay

Time : Two (02) Hours

Marks allocated : 100 Marks

Answer **all** questions.

Index No:

01. The stock market is the place in which the shares of publicly held companies are issued and traded either through exchanges or over-the-counter markets.

i) Briefly explain the role of the stock markets in the modern economies. (15 Marks)

ii) Briefly explain the factors affecting to the stock prices. (10 Marks)

(Total Marks-25)

02.

i) What are the characteristics that an investor would like to have in an investment option? Explain each of those characteristics. (5 Marks)

ii) Differentiate 'Business Risk' from 'Financial Risk' with suitable examples. (5 Marks)

iii) A stock costing Rs.120 pays no dividends. The possible prices that the stock might be sold at the end of the year with the respective probabilities are as follows.

Possible Prices (Rs)	Probability
115	0.10
120	0.10

03

125	0.20
130	0.30
135	0.20
140	0.10

a. Calculate the expected return. (7 Marks)

b. Calculate the standard deviation of returns. (8 Marks)

(Total Marks-25)

03.

i) Briefly explain the importance of understanding the "time value of money" for a person interested on investing the money. (6 Marks)

ii) Mr.Perera deposits Rs.1,000,000 in a savings account that pays 11 percent interest, compounded annually. How much will his account be worth in 5 years? Clearly show the calculations. (6 Marks)

iii) A company invests Rs.5 million to purchase a land. The company plans to sell the land for Rs.7 million after 10 years. What is the company's expected rate of return? Clearly show the calculations. (6 Marks)

iv) Silva wants a television that costs Rs. 120,000. He has arranged to borrow the total purchase price of the television from a bank at a simple interest rate equal to 14 percent. The loan requires monthly payment for a period of two years. If the first payment is due one month after purchasing the television, what will be the amount of his monthly payment of the loan? (7 Marks)

(Total Marks-25)

04.

i) Differentiate 'Independent projects' from 'Mutually exclusive projects'. (5 Marks)

ii) Outline the steps of capital budgeting process. (5 Marks)

iii) Consider the TEC Project, which requires an investment of Rs.1 billion initially, with subsequent cash flows of Rs.200 million, Rs.300 million, Rs.400 million, and Rs.500 million. The estimated cash flows from the investment proposal can be summarized as follows.

Year	Cash Flow (RS '000')
0	-1000
1	200
2	300
3	400
4	500

Compute the followings.

a) Payback period. (5 Marks)

b) Net Present Value at 5 % discount rate. (5 Marks)

c) Profitability Index at 5% discount rate. (5 Marks)

(Total Marks-25)