



Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR FIRST SEMESTER EXAMINATION – AUGUST/SEPTEMBER 2014

EMG 213-2 Investment Management



Instructions to candidates:

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

Index No:

01. Financial markets are places where financial instruments are bought and sold. These markets considered as the central nervous system of an economy.

- i) Briefly explain the role of the financial markets in the economy? (7 Marks)
- ii) What is meant by an efficient market? What are the benefits to the economy from an efficient market? (8 Marks)
- iii) Why the role of the organized stock exchanges is important in the modern economies? (10 Marks)

(Total Marks-25)

02.

- i) Discuss the term “relevant risk” in the context of the CAPM. (7 Marks)
- ii) Many of underlying assumptions of the CAPM are violated in some degree in “real world”. Explain (8 Marks)
- iii) Investors tend to follow different investment philosophies as they move through different stages of the life cycle. Briefly discuss investing decisions over the Investor Life Cycle. (10 Marks)

(Total Marks-25)

03.

- i) "Most investors prefer to hold a diversified portfolio of securities as opposed to placing all of their wealth in a single asset". Discuss. (10 Marks)
- ii) 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.

Price (Rs)	Probability
115	0.1
120	0.1
125	0.2
130	0.3
135	0.2
140	0.1

- a. Calculate the expected return.
- b. Calculate the standard deviation of returns.

(15 Marks)

(Total Marks-25)

04.

- i) Briefly explain the concept "time value of money". (6 Marks)
- ii) Assume that you deposit Rs. 5,000 in a savings account that pays 12 %, compounded annually. How much will your account be worth after 10 years? (6 Marks)
- iii) If a 5-year ordinary annuity has a present value of Rs. 100,000, and if the interest rate is 10%, what is the amount of each annuity payment? (6 Marks)
- iv) Suppose you pay 15% as a nominal annual rate on your credit card. If you make monthly payments with monthly compounding, what is your effective annual rate?

(7 Marks)

(Total Marks-25)

05. A company is considering an investment proposal to install new machine at a cost of Rs.1,000,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 30%. Assume the firm uses straight-line depreciation method and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows.

Year	CFBT (RS)
1	250,000
2	300,000
3	400,000
4	350,000
5	400,000

Compute the followings.

- i) Payback period.
- ii) Accounting Rate of Return.
- iii) Internal Rate of Return.
- iv) Net Present Value at 10 % discount rate.
- v) Profitability Index at 10% discount rate.

(Total Marks-25)

