

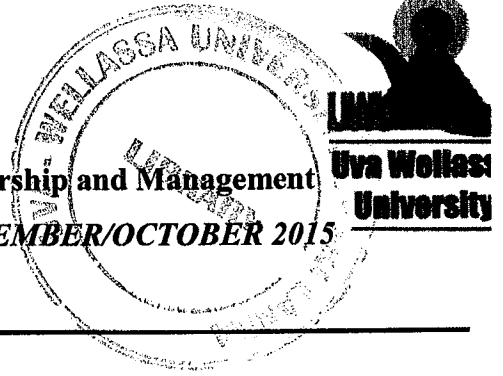
Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR FIRST SEMESTER EXAMINATION – SEPTEMBER/OCTOBER 2015

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 any four (04) questions.

Index No:

01. Stock market is an important part of the economy of a country. The stock market plays a pivotal role in the growth of the industry and commerce of the country. Thus, the government, industry and even the central banks of the country keep a close watch on the happenings of the stock market.

- i) Briefly explain the importance of well-organized stock markets in the modern economies. (15 Marks)
 - ii) Briefly explain the impact of 'Interest Rate' and 'Inflation' fluctuations to the stock prices. (10 Marks)
- (Total Marks-25)

02.

- i) Briefly discuss investing decisions over the Investor Life Cycle. (10 Marks)
- ii) Describe the steps in investing, especially establishing investing goals and managing personal tax issues. (15 Marks)

(Total Marks-25)

03.

- i) Differentiate 'Systematic Risk' from 'Unsystematic Risk' with suitable examples. (10 Marks)
- ii) A stock costing Rs.250 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
200	0.10
230	0.25
250	0.35
280	0.20
310	0.10

- a. Calculate the expected return. (7 Marks)
- b. Calculate the standard deviation of returns. (8 Marks)
- (Total Marks-25)

04.

- i) Briefly explain the importance of understanding the "time value of money" for investors. (6 Marks)
- ii) What is the present value of a security that promises to pay you Rs. 500,000 after 20 years? Assume that you can earn 7 percent if you were to invest in other securities of equal risk. (6 Marks)
- iii) A company invests Rs.4 million to purchase a tract of land and set out some young pine trees. The company plans to sell the land for Rs.8 million after 10 years. What is the company's expected rate of return? (6 Marks)

iv) Robinson wants a refrigerator that costs Rs. 50,000. He has arranged to borrow the total purchase price of refrigerator from a finance company at a simple interest rate equal to 12 percent. The loan requires quarterly payment for a period of three years. If the first payment is due three months after purchasing the refrigerator, what will be the amount of his quarterly payment of the loan? (7 Marks)

(Total Marks-25)

05. A company is considering an investment proposal to purchase a machine at a cost of Rs.3,000,000. The vehicle has a life expectancy of 15 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	750,000
2	900,000
3	1,200,000
4	1,050,000
5	1,200,000

Compute the followings.

- i) Payback period. (5 Marks)
- ii) Accounting Rate of Return. (5 Marks)
- iii) Internal Rate of Return. (5 Marks)
- iv) Net Present Value at 10 % discount rate. (5 Marks)
- v) Profitability Index at 10% discount rate. (5 Marks)

(Total Marks-25)

