



Uva Wellassa University

Faculty of Management



**Uva Wellassa
University**

Degree of Bachelor of Business Management in Entrepreneurship and Management

2nd YEAR 1st SEMESTER EXAMINATION – FEBRUARY/ MARCH 2012

EMG 213 -2 Investment Management

EMG 261 -2 Investment Management (Repeaters)

Part C- Essay Questions

Part C contains three (03) questions.

Answer only two (02) questions including question number (01)

Marks allocated for part C is Fifty (50)

Show all workings

01.

a. Distinguish the market price and the value of a share

(2 marks)

b. Briefly explain the determinants of the value of a share

(6 marks)

c. Mr. perera is an ordinary person who having Rs.500,000 in hand and he is willing to invest this money in ordinary shares of ABC PLC. Since Mr. perera is not a knowledgeable person on stock market transactions, he is expecting your consultancy on this investment decision. The following table shows five years details regarding Market Price of a Share, Earning Per Share (EPS) and Price Earnings Ratio (PE Ratio) of ABC PLC.

Year	2007	2008	2009	2010	2011
Market price (Rs)	125	135	150	140	147
EPS (Rs)	12	16	17.60	16.40	18
PE Ratio	10.42	8.44	8.52	8.54	8.17

Consider the historical average PE Ratio as the benchmark PE Ratio of the company for the purpose of valuing the shares.

You are required to advice Mr.perera whether to invest or not in this company.

(12 marks)

d. Most popular method of valuing a share is Price Earning Ratio method (PE Ratio method). But it is not suitable to make decisions only based on the PE Ratio. That is only a one measure of a share Value. Other than that investors must consider several other factors in selection of shaes to invest.

Describe other factors considered in selection of shares?



02. Mr. Kasun is an ambitious young executive who has recently been appointed to the position of financial director of Paradis PLC, a newly listed small company. Paradis PLC has recently raised Rs.150,000 from a share issue and the Board of Directors are considering two ways of using these funds. Two projects A and B are being considered each involving the immediate purchase of equipment costing Rs.150,000. One project only can be undertaken and the equipment for each project will have a useful life equal to that of the project, with no scrap value. The following profits are expected from three projects for their life time.

Year	Project A	Project B
Year 01	50,000	30,000
Year 02	55,000	32,000
Year 03	35,000	47,000
Year 04	20,000	68,000

Additional notes

1. Profit is calculated after deducting depreciation on straight –line method
 2. The cost of capital of the company is 12%
- a. Calculate payback period and Net Present Value of two projects
(4 marks)
 - b. Based on the answer to part (a) above give the recommendation to the board of directors on which project to be undertaken. Clearly explain the reason for your answer
(8 Marks)
 - c. Calculate the Internal Rate of Return of the two projects and state your recommendation based on IRR rule?
(8 marks)

(10 marks)
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03. Write short notes on any four (04) topics given below.

- a. Stock market indices
- b. Powers duties and functions of SEC
- c. Bull and Bear market
- d. Central depository system
- e. Securities traded at CSE

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