

Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

SECOND YEAR SECOND SEMESTER EXAMINATION – DECEMBER/JANUARY 2017

ENM 221-2 Investment Management



Instructions to candidates:

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

Index No:

01. Investment is a term frequently used in the fields of economics, business management and finance. It can mean savings alone, or savings made through delayed consumption.

Investment can be divided into different types according to various theories and principles.

- i) Briefly explain the Role and the Scope of Investments (10 Marks)
 - ii) How Investment in financial assets differs from investment in physical assets?
(08 Marks)
 - iii) Discuss the characteristics of Short term investment vehicles (07 Marks)
- (Total Marks-25)

02. Contribution of financial system for maintaining the competitiveness of an economy is immense. Financial system of an economy includes banks, stock markets, pension and mutual funds, insurers, central bank, as well as regulatory and supervisory authorities. The financial system contributes to economic development in many ways through its functions.

- i) Briefly explain the economic functions performed by the financial markets.
(15 Marks)
 - ii) Briefly explain the role of well-organized stock market in economic development
(10 Marks)
- (Total Marks-25)



03.

i) "The market price of bonds is inversely related to the market interest rates". Explain.

(05 Marks)

ii) A common share of Zahara Corporation is currently selling at Rs.100. It is expected that a dividend of Rs.4 per share would be paid during the year and the share could be sold at Rs.108 at the end of the year. Calculate the expected return from the shares.

(06 Marks)

iii) A stock costing Rs.130 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
100	0.10
130	0.20
160	0.30
190	0.25
220	0.15

a. Calculate the expected return.

(07 Marks)

b. Calculate the standard deviation of returns.

(07 Marks)

(Total Marks-25)

04. Time Value of Money (TVM) is one of the most important principles in finance. It is commonly used as a basis in the analysis of almost all financing and investment transactions. Solve the following problems using TVM principle.

i) You can earn 8 percent interest, compounded annually. How much you should deposit today to withdraw Rs.1,000,000 in 5 years?

(04 Marks)

ii) You just put Rs.100,000 in a bank account which pays 6 percent nominal annual interest, compounded monthly. How much will you have in your account after 5 years?

(07 Marks)

iii) Mr. Perera plans to retire next year on his 63rd birthday. He is curious how much he can spend each year after retirement. Since he was 25 years old, Mr. Perera has saved Rs.30,000 per year in an account that earns 5% interest rate. His life expectancy is 90 years. Calculate the amount of savings that Mr. Perera will have accumulated at age 63.

(07 Marks)

iv) Mr.Silva wants a motorcycle that costs Rs. 250,000. He has arranged to borrow the total purchase price of the motorcycle from a bank at a simple interest rate equal to 10 percent. The loan requires monthly payment for a period of two years. If the first payment is due one month after purchasing the motorcycle, what will be the amount of his monthly payment of the loan?

(07 Marks)

(Total Marks-25)

05.

i) Briefly explain the steps of the capital budgeting process

(05 Marks)

ii) There are two mutually exclusive projects under active consideration of ABC Company. Project A is having 5 years life time and project B is having 4 years life time with initial cash outlays of Rs.100,000 and Rs.125,000 respectively. These outlays will be capitalized (depreciated) on a straight line basis to a zero book salvage. Further, annual cash expenses of Rs.5,000 are estimated to be required for project B. The company's tax rate is 40% and its required rate of return (cost of capital) for this project is 12%.The projects are expected to generate a net cash inflow before taxes as follows:

Year	Project A (Rs)	Project B (Rs)
1	30,000	40,000
2	30,000	60,000
3	20,000	30,000
4	30,000	40,000
5	40,000	



You are required to:

- a. calculate the Average Rate of Return for each project (08 Marks)
- b. calculate the Net Present Value for each project (08 Marks)
- c. advice the company to select a project based on your calculations. Justify your answer. (04 Marks)

(Total Marks-25)