CIE-2 Scheme and Solution

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IEM

Quiz:- Part-A

1. Total return anticipated on a bond if it is held until its maturity date. It represents the average annual return an investor can expect to earn if the bond is purchased at its current market price and held until maturity; assuming all Coupon payments are reinvested.
2. Zero Coupon Bond
3. Capital Asset pricing Model
4. Net present value
5. Systematic Risk / Market Risk.
6. Diversification
7. Risk
8. Internal Rate of Return
9. Payback period
10. Accounting Rate of Return

Each Question carries 1 mark

Test:- Part-B

1.a) $V = 12\left(PVIFA_{14\%,8yrs}\right) + 200\left(PVIF_{14\%,8yrs}\right)$

$= Rs.12(4.639) + Rs.200(0.351)$ → 05M

$= 55.668 + 70.2 = 127.86/=$

b) $K_s = \left(D_1/P_0\right) + g$

$= (12/145) + 0.07 = 0.082 + 0.07$ → 05M

$= 0.15 = 15$ percent.

2.

a) $D_{10} = 6(1.06)^{10} = 6(1.79)$ — 05m

$D_t = D_0(1+g)^t = 10.74/=$

b) $YTM = \dfrac{I + (F-P)/n}{0.4F + 0.6P}$

$= \dfrac{14 + (200-180)/6}{0.4 \times 200 + 0.6 \times 180} = \dfrac{17.33}{188}$ — 05m

$= 9.2\%$

3.

(i) 1,000 in the equity stocks of Box Ltd.

10 equity shares can be bought for Rs. 1,000/=

Probability distribution of overall return, when 10 equity shares are purchased will be as follows:

Economic condition	Overall return	Probability
High Growth	10(100) = 1,000	0.3
Low Growth	10(110) = 1,100	0.4
Stagnation	10(120) = 1,200	0.2
Recession	10(140) = 1,400	0.1

Expected Return is: $0.3(1,000) + 0.4(1,100) + 0.2(1,200) + 0.1(1400) = Rs.\ 1,120/=$

Std. Deviation of return is:

$[0.3(1000-1120)^2 + 0.4(1100-1120)^2 + 0.2(1200-1120)^2 + 0.1(1400-1120)^2]^{1/2} = 116.6$ ⟶ 05m

(ii) On the similar lines:
ERR is Rs. 1210/= } → 05m
SD is Rs. 291.4/= }

4 a) Identification of potential investment opportunities; Assembling of proposed investments; Decision making; Preparation of Capital budget and appropriations; Implementation; Performance Review → 05m

b) Cost of Capital of 12%.

Initial Investment — Rs. 2,00,000/=
Benefits: Year 1 — Rs. 50,000/=
year 2 & 3 — Rs. 80,000/=
year 4 — Rs. 1,00,000/=

$$BCR = \frac{\frac{50,000}{(1.12)} + \frac{80,000}{(1.12)^2} + \frac{80,000}{(1.12)^3} + \frac{1,00,000}{(1.12)^4}}{2,00,000}$$

$$= 44642.85 + 64000 + 57142.85 + 63,694.26$$

$$= \frac{229479.96}{2,00,000} = 1.14$$

$$NBCR = BCR - 1$$
$$= 0.14$$

Since BCR > 1 and NBCR > 0 the project can be accepted → 05m

5. Long term sources of Finance:

Equity, Debt, Loans, Convertible Debentures, Retained Earnings, Leasing, Venture Capital, Asset backed financing, Govt grants and subsidies, preference shares, International financing etc.

To discuss about minimum of 5 sources.

Each 02M ⟶ 10M