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Question Paper	
Strategic Financial Management	Duration: 65
Details: Test – 2	Marks: 35

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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Q-1 Mr.X of the opinion that market has recently shown the Weak form of Market Efficiency. In order to test the validity of his impression he has collected the following data relating to the movement of the SENSEX for the last 20 days.

Days	Open	High	Low	Close
1	33470.94	33513.79	33438.03	33453.99
2	33453.64	33478.11	33427.82	33434.83
3	33414.06	33440.29	33397.65	33431.93
4	33434.94	33446.18	33377.78	33383.41
5	33372.92	33380.27	33352.12	33370.93
6	33375.85	33389.49	33331.42	33340.50
7	33340.89	33340.89	33310.95	33330.98
8	33326.84	33340.91	33306.17	33335.08
9	33307.16	33328.22	33296.43	33301.97
10	33298.64	33318.60	33254.28	33259.03
11	33260.04	33228.85	33241.66	33251.53
12	33255.92	33289.46	33249.46	33285.89
13	33288.86	33535.67	33255.98	33329.28
14	33335.00	33346.21	33276.72	33284.17
15	33293.83	33310.86	33278.54	33298.78

16	33300.02	33337.79	33300.02	33325.38
17	33323.36	33356.34	33322.44	33329.95
18	33322.81	33345.98	33317.44	33319.67
19	33317.51	33321.18	33294.19	33302.32
20	33290.86	33324.96	33279.62	33319.61

You are required: To test the Weak form of Market Efficiency using Auto-Correlation test, taking time lag of 10 days

(6 marks)

Q-2 In an efficient market, technical analysis may not work perfectly. However, with imperfections, inefficiencies and irrationalities, which characterises the real world, technical analysis may be helpful. Critically analyse the statement

(5 marks)

Q-3 Consider the following information relating to the returns from two stocks and the market index in different economic scenarios:

Scenarios	Probability of scenario	Stock A (%)	Stock B (%)	Return from market index (%)
Boom	0.25	-15	-8	-7

Slow	0.10	19	-5	12
Growth	0.45	35	25	20
Stagnation	0.20	15	18	25

From the above information, you are required to:

- Calculate the ex-ante beta for the two stocks
- Assuming that SML holds good, determine the Alpha of the two stocks and comment on the same. Also assume a risk free rate of interest of 7%.

(8 marks)

Q-4 X Co., Ltd., invested on 1.4.2009 in certain equity shares as below:

Name of Co.	No. of Shares	Cost (%)
M Ltd.	1,000 (Rs. 100 each)	2,00,000
N Ltd.	500 (Rs. 10 each)	1,50,000

In September, 2009, 10% dividend was paid out by M Ltd. and in October, 2009, 30% dividend paid out by N Ltd. On 31.3.2010 market quotations showed a value of Rs. 220 and Rs. 290 per share for M Ltd. and N Ltd. respectively.

On 1.4.2010, investment advisors indicate (a) that the dividends from M Ltd. and N Ltd. for the year ending 31.3.2011 are likely to be 20% and 35%, respectively and (b) that the probabilities of market quotations on 31.3.2011 are as below:

Probability Factor	Price/ Share of M Ltd. Ltd.	Price/ Share of N
0.2	220	290
0.5	250	310
0.3	280	330

You are required to:

- Calculate the average return from the portfolio for the year ended 31.3.2010;
- Calculate the expected average return from the portfolio for the year 2010-11; and
- Advise X Co. Ltd., of the comparative risk in the two investments by calculating the standard deviation in each case.

(6 marks)

Q-5 The Investment portfolio of a bank is as follows:

Government Bond	Coupon Rate	Purchase rate (F.V. 100)	Duration (Years)
G.O.I. 2009*	11.68	106.50	3.50
G.O.I. 2012	7.55	105.00	6.50
G.O.I. 2015	7.38	105.00	7.50
G.O.I. 2022	8.35	110.00	8.75
G.O.I. 2032	7.95	101.00	13.00

Face value of total Investment is Rs. 5 Crores in each Government Bond. Calculate actual Investment in portfolio.

What is a suitable action to churn out investment portfolio in the following scenario?

Interest rates are expected to lower by 25 basis points

Interest rates are expected to raise by 75 basis points

(6 marks)

Q-6 Venture capital financing is unique way of financing a startup, discuss?

(4 marks)

