



Name:

Enrolment No:

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, May 2022

Course: BA Eco (Hons.)

Program: Financial Economics

Course Code: ECON 3017

Semester: VI

Time: 03 hrs.

Max. Marks: 100

Instructions: Attempt all the questions.

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q 1	The lowering of bank rate by the Reserve Bank of India leads to a) less liquidity in the market b) more liquidity in the market c) mobilization of more deposits by commercial banks d) no change in the liquidity in the market	2	CO1
Q 2	The rate of which discounting the bills of first class banks is done by RBI is called a) loan rate b) discounting rate c) bank rate d) None of these	2	CO1
Q 3	Gilt edged securities refer to a) government securities b) high grade securities issued by large companies and government c) securities issued by municipal corporation d) securities issued by state institution	2	CO1
Q 4	Full form of SLR a) state locality reserve b) sundry leverage ratio c) state level recovery d) statutory liquidity ratio	2	CO1
Q 5	A market where new securities are bought and sold for the first time is known as a) capital market b) primary market c) secondary market d) tertiary market	2	CO1

Q 6	<p>What is Repo rate?</p> <p>a) It is the rate at which RBI sells government securities to banks</p> <p>b) It is the rate at which RBI buys government securities from banks</p> <p>c) It is the rate at which RBI allows small loan in the market</p> <p>d) None of the above</p>	2	CO1															
Q 7	<p>Suppose an Investment provides the following periodic return over last four years as below:</p> <table border="1" data-bbox="228 489 1170 575"> <tr> <td>Year</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> </tr> <tr> <td>Return (%)</td> <td>10</td> <td>12</td> <td>-6</td> <td>12</td> </tr> </table> <p>What is the holding period return?</p> <p>a) 6.72%</p> <p>b) 6.27%</p> <p>c) 6.37%</p> <p>d) 6.38%</p>	Year	1	2	3	4	Return (%)	10	12	-6	12	2	CO1					
Year	1	2	3	4														
Return (%)	10	12	-6	12														
Q 8	<p>The following table provides the proportion of investment and expected return on four different stocks.</p> <table border="1" data-bbox="228 871 1170 1167"> <tr> <td>Asset</td> <td>A</td> <td>B</td> <td>C</td> <td>D</td> </tr> <tr> <td>Proportion in Portfolio (%)</td> <td>20</td> <td>30</td> <td>40</td> <td>10</td> </tr> <tr> <td>Expected Return from the asset</td> <td>.18</td> <td>.16</td> <td>.20</td> <td>.24</td> </tr> </table> <p>What is the expected return from the portfolio?</p> <p>a) 15.8%</p> <p>b) 15.6%</p> <p>c) 15.5%</p> <p>d) 15.3%</p>	Asset	A	B	C	D	Proportion in Portfolio (%)	20	30	40	10	Expected Return from the asset	.18	.16	.20	.24	2	CO3
Asset	A	B	C	D														
Proportion in Portfolio (%)	20	30	40	10														
Expected Return from the asset	.18	.16	.20	.24														
Q 9	<p>If nominal rate of return and inflation rate are 12.4% and 5.6% respectively, what is the real rate of return?</p> <p>a) 6.44%</p> <p>b) 6.33%</p> <p>c) 6.23%</p> <p>d) 6.13%</p>	2	CO3															
Q 10	<p>If real rate of return and nominal rate of return are 8.5% and 15.4% respectively, what is the inflation rate?</p> <p>a) 6.36%</p> <p>b) 6.26%</p> <p>c) 6.16%</p> <p>d) 6.21%</p>	2	CO3															

SECTION B 4Qx5M= 20 Marks			
Q 11	What is a bond? Is it same as a debenture? What are the features of a bond?	5	CO2
Q 12	What is the interest rate risk? How are values of bonds affected when the market rate of interest changes? Illustrate your answer.	5	CO2
Q 13	Explain the difference between futures and forward contract.	5	CO2
Q 14	What are the different sources of risk?	5	CO2
SECTION-C 3Qx10M=30 Marks			
Q 15	<p>You have a \$ 50,000 automobile loan that you took on when you bought your new Porsche. The loan has to be paid off in equal monthly installments over the next 36 months, with each installment including both interest and principal.</p> <p>a. Estimate the monthly payment assuming a 1% monthly interest rate.</p> <p>b. If you pay 1% a month, what is the annualized interest rate on the loan?</p> <p>c. At the end of 1 year, how much would you still owe in principal on the loan?</p>	10	CO3
Q 16	What is CAPM Model? Derive the Security Market Line.	10	CO3
Q 17	What are the factors, which affect the bond price? Explain in detail.	10	CO4
SECTION-D 2Qx15M= 30 Marks			
Q 18	<p>You can expect to pay \$ 8,000 a year, growing at 5% a year, to send a child to private school for 12 years. Beyond that period, you can expect to pay college tuition for 4 years; the annual cost currently of going to college is \$ 15,000 but you can expect this to grow 4% a year over time. Your investments are expected to earn 6% a year.</p>	15	CO3

	<p>a. Estimate the total cost, in present value terms, of educating a child in a private school and university.</p> <p>b. What difference would it make if tuition (in both the private school and college) were tax deductible, and your tax rate was 40%?</p> <p>c. How would your answer to (b) change, if tuition were deductible only up to \$ 5,000?</p>		
Q 19	Explain the structure of the Indian Financial Market. What is the role of SEBI?	15	CO4