University of Pune
Department of Management Sciences (PUMBA)
Executive MBA Programme 2011-12
Internal Examination (3rd Semester)

302: Advance Financial Management

Time: 2 ½ hrs. Marks: 30

Note:
1. Answer all questions 2.Use of Calculators (Scientific/Financial) is allowed

Formulae:
Future Value of Annuity = $A[(1+i)^n - 1] / i$
Present Value of Annuity = $A[(1+i)^n - 1] / [i \times (1+i)^n]$

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1. Your grandfather put some money in bank account for you on the day you were born. You are now 18 years old and allowed to withdraw the money for the first time. The account currently has Rs.3,996 in it and pays an 8% interest rate.
a. How much money would be in the account if you left the money there until your 25th birthday?
b. How much money did your grandfather originally put in the account? **(8marks)**

2. Suppose a 5year Rs.1000 bond with an 8% coupon rate and redemption at face value is trading at yield to maturity of 7%.
a. Is this bond currently trading at face value, at discount or at premium?
b. If the yield to maturity (YTM) rises to 10%, what price will the bond trade for? **(8marks)**

3.

	E (R)	Std. Dev. of Return
Lalit Modi Enterprises Ltd.	7%	16%
BCCI Ltd.	10%	20%

The correlation coefficient of returns for the 2 stocks is -100%.
a. Calculate the expected return and standard deviation of a portfolio that is equally invested in both the stocks.
b. Calculate the portfolio weights of the 2 stocks that would make the risk (standard deviation) of the portfolio equal to 0. (Hint: w1+w2=1. Total weight in both stocks adds to 100%) **(8 Marks)**

4. You made a Rs.750 investment. The value of this investment after 3 years became Rs.1000.
a. For the above investment, calculate the effective rate of return per year.
b. Convert the effective rate to nominal rate per annum, continuously compounded
(Answer should be in the form, X%PA, continuously compounded) **(4marks)**

5. The financial manager's investment decisions determine
A. both the mix and the type of assets found on the firm's balance sheet.
B. both the mix and the type of liabilities found on the firm's balance sheet.
C. both the mix and the type of assets and liabilities found on balance sheet.
D. both the mix and the type of short-term and long-term financing. **(1mark)**

6. The higher an asset's beta,
A. the more responsive it is to changing market returns.
B. the less responsive it is to changing market returns.
C. the higher the expected return will be in a down market.
D. the lower the expected return will be in an up market. **(1 mark)**