2022

ECONOMICS — HONOURS

Paper : DSE-B-2

(Financial Economics)

Full Marks : 65

The figures in the margin indicate full marks.

*Candidates are required to give their answers in their own words
as far as practicable.*

Group - A

1. Answer *any ten* questions : 2×10

   (a) What is a fixed income security? Give an example.

   (b) What is the coupon rate of a bond?

   (c) Calculate the present value of ₹ 5,000 at an interest rate of 10% after 3 years, discounting is done half yearly.

   (d) What is meant by Yield to Maturity?

   (e) What is a price yield curve?

   (f) Differentiate between bid price and ask price of a bond.

   (g) State the One Fund Theorem.

   (h) What is a Long Hedge?

   (i) When is a Call Option exercised?

   (j) What is meant by LIBOR?

   (k) What is Put-Call Parity?

   (l) What is meant by Optimum Capital Structure of a firm?

   (m) What do you mean by Venture Capital?

   (n) What is the Overall Cost of capital of a firm?

   (o) Define Debt-Equity Ratio.

Group - B

2. Answer *any three* questions :

   (a) Suppose a new consumer product is to be launched. The cash flows over the three year life of the project will be ₹ 2000 in the first two years and ₹ 4000 in the third year. It will cost ₹ 10,000 to begin the project. Using a 10% discount rate, evaluate the project with the Net Present Value Criterion (NPV). 5

Please Turn Over

(2)

(b) (i) Given the following spot rates of interest, $S_1 = 9\%$ and $S_2 = 10\%$, calculate the Forward Rate f_{12}.

(ii) A bond with a face value of ₹ 100, with coupon rate of 8% and maturity period of two years and redeemable at par is sold at par value. Calculate it's yield to maturity. 2+3

(c) Distinghish between Capital Market Line and Security Market Line in CAPM. 5

(d) Discuss the factors that affect pricing of an option. 5

(e) Discuss the importance of Equity shares and Preference shares as sources of corporate finance. 5

Group - C

Answer *any three* questions.

3. (i) There are two financial assets in a portfolio. Calculate the portfolio mean and variance given the following data :

Assets	Expected Return	Standard Deviation
A	15%	22%
B	10%	18%

[Covariance $_{AB}$ = 1%, Weights of Assets : W_A = 30%, W_B = 70%]

(ii) Define the Minimum Variance Set and the Efficient Frontier with the help of a diagram. 5+5

4. (i) What is the expected rate of return and variance of the rate of return on a portfolio that consists of both risky assets and a risk-free assets?

(ii) Define the Capital Allocation Line. 5+5

5. Discuss the various option trading strategies in the market. 10

6. Explain the three standard theories for the Term Structure of interest rates. 10

7. Discuss the M-M Propositions on the Capital Structure of a firm. 10

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