

SET -I

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

**POST GRADUATE DIPLOMA IN MANAGEMENT**

4<sup>th</sup> Trimester (Batch 2019-21)

END TERM EXAMINATIONS (OPEN BOOK EXAM)

Course Name	Financial Market & Institutions/ Financial Systems and Services (FMI/FSS)	Course Code	G/SM/MFIN403
Max. Time	2 hours	Max. Marks	40

**Instructions: ATTEMPT ALL QUESTIONS.**

Q1. Government debt composition and its maturity tenure has a high influence on the monetary policy of a country. Government need to decide on the issue of short-term or long term debt or offering traditional or index linked funds. To this end,

1. Explain the impact of government debt composition on Interest rate structure which have an impact on real returns (yields) (250 words: 7 marks)
2. Explain various factors influencing government borrowings decision, especially, when the financial markets are underdeveloped. (150 words: 5 marks)

Q2. “Financial markets ensure financial stability of instruments of various maturities by developing a secondary market. However, there has been an increasing trend towards allowing greater flexibility to market forces in determining the pricing and existence of grey market that all lead to high unpredictability in the secondary market of securities”. Interpret the statement based on your understanding (250 words: 7 marks)

Q3. “There has been an increase in the component of offer for sale than primary issue in IPOs. Also, private equity route is preferred in various thematic domains”. Do you agree with the statement? Justify the answer. (150 words: 5 marks)

Q4. Suppose that you served on a large bank’s management committee. One issue facing the committee today is how to fund a \$15 million three-year loan, and whether the interest rate charged on the loan should be floating or fixed. The loan request has been approved, but the details of the credit facility have not yet been worked out. Given the current economic and financial outlook, summarize your recommendations and explain how as a bank manager you can hedge loan risk? (200 words: 6 marks)

Q5. Please answer the following questions with reference to Table 1.

1. Based on the performance indicators, determine a best mutual fund scheme to a low and high risk propensity investor for an investment of 5 years. (200 words 5 marks)
2. Based on the portfolio allocation data, determine mutual fund is considered to be highly diversified and expected to give better returns in the future. (200 words 5 marks)

**Table 1**

	JM Low Duration Fund - Growth	Quant Mid Cap Fund - Growth	BOI AXA Mid & Small Cap Equity & Debt Fund - Reg - Growth	Quant Multi Asset Fund - Growth
<b>Portfolio Date</b>	31/08/2020	31/08/2020	31/08/2020	31/08/2020
<b>Category Name</b>	Debt	Balanced	Balanced	Gilt
<b>Fund Manager</b>	Vikas Agarwal	Sanjeev Sharma, Gaurav Balra, Shamil Mehra	Alok Singh, Ajay Khandelwal	Gaurav Balra
<b>Asset Allocation</b>				
Equity	0 %	82.13 %	81.41 %	31.82 %
Debt	30.94 %	0 %	11.01 %	0.72 %
Others	69.06 %	17.87 %	7.58 %	67.46 %
<b>Market Cap</b>				
<b>Top 5 Holding</b>	78.86 %	51.61 %	22.82 %	47.65 %
<b>Top 3 Sectors</b>				
Sovereign	42.79 %	0 %	0 %	0 %
Current Assets	26.27 %	17.87 %	0 %	0 %
Financial Services	25.28 %	16.53 %	26.95 %	0 %
Pharma	0 %	14.87 %	10.26 %	0 %
Chemicals	0 %	0 %	13.07 %	8.71 %
Mutual Funds	0 %	0 %	0 %	82.23 %
Consumer Goods	0 %	0 %	0 %	9.79 %
<b>Total :</b>	94.34 %	49.27 %	50.28 %	80.73 %
<b>Portfolio PE (Times)</b>	0	52.12	43.63	69.27
<b>Average Maturity (as on)</b>	0.82 Years	0 Years	1.96 Years	0.02 Years
<b>YTM</b>	3.82 %	0 %	4.13 %	4.37 %
<b>Expense Ratio</b>	0.45 %	2.48 %	2.62 %	2.48 %
<b>Exit load</b>	Nil	If redeemed bet. 0	If redeemed bet. 0	Nil
<b>Performance</b>		Year t...	Year t...	
3 Months Return	20.95 %	14.49 %	19.95 %	25.06 %
6 Months Return	23.66 %	49.33 %	37.39 %	48.74 %
1 Year Return	21.85 %	25.55 %	21.23 %	20.22 %
3 Years Return	6.12 %	6.40 %	2.11 %	9.87 %
5 Years Return	6.81 %	7.40 %	0 %	9.18 %
<b>SIP Analysis</b>				
Value of Rs 5000 per month for 3	180000	180000	180000	180000
Return	5.09 %	4.84 %	3.3 %	8.27 %
<b>Risk Measures</b>				
Sharpe	0.06 %	0.07 %	0.02 %	0.10 %
Sortino	0.13 %	0.10 %	0.03 %	0.17 %
Standard Deviation	3.81 %	6.17 %	5.81 %	5.43 %

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Q1. Monetary policy and financial markets are mutually inter-dependent on each other. Central bank takes various direct and indirect steps that effects financial market particularly money market prices. Elaborate those interventions with the help of money market instruments keeping in mind three broad functions of the money market. (300 words: 10 marks)

Q2. The IPO scam came to light in 2005 when the private 'Yes Bank' launched its initial public offering. Roopalben Panchal, a resident of Ahmedabad, had allegedly opened several fake demat accounts and subsequently raised finances on the shares allotted to her through Bharat Overseas Bank branches. The Sebi started a broad investigation into IPO allotments after it detected irregularities in the buying of shares of YES Bank's IPO in 2005. On October 10 last year, an Income Tax raid on businessman Purushottam Budhwani accidentally found he was controlling over 5,000 demat accounts. Sebi finds this suspicious. On December 15, Sebi declared results of its probe, how a few people cornered a large chunk of YES Bank IPO shares. On January 11 this year, Sebi discovered huge rigging in the IDFC IPO. Roopalben Panchal was found to be controlling nearly 15,000 demat accounts. It was found that once they obtained these shares, the fictitious investors transferred them to financiers. The financiers then sold these shares on the first day of listing, reaping huge profits between the IPO price and the listing price. The Sebi report covered 105 IPOs from 2003-2005. The Sebi probe covered several IPOs dating back to 2005, 2004 and 2003 to detect misuse. These included the offerings of Jet Airways, Sasken Communications, Suzlon Energy, Punj Lloyds, JP Hydro Power, NTPC, PVR Cinema, Shringar Cinema and others. A lot more dubious accounts across several IPOs are expected to tumble out in the next few days.

It also detected similar irregularities in the IDFC IPO; in which over 8 per cent of the allotment in the retail segment was cornered by fictitious applicants through multiple demat accounts. Roopalben Panchal of IndiaBulls Securities is allegedly the mastermind of the scam. Finance Ministry officials are expected to act against her soon. Apart from the YES Bank fraud, SEBI reportedly has definite data about two IPOs where retail allotments were rigged, but market observers believe the scam is far bigger. The Yes Bank and IDFC cases are only a tip of an iceberg, say analysts.

2(a). Determine key risk indicators that can be used to track the occurrence of such events. (250 words 7 marks)

2(b). What do bank and regulators do to minimize occurrence of such events. (200 words 6 marks)

Q3. Stock market investment is only as risky as you want it to be. Justify the statement with examples. (150 words 5 marks)

Q4. Compare the portfolio managers of closed-end funds versus an open-end fund. Given the differences in the fund characteristics, explain why the portfolio manager's management of liquidity is different in the open-end fund as compared to the closed-end fund. Assume that the size of each fund is the same and that the goal is to invest in stocks and to earn a very high return. Which manager do you think will achieve higher increase in the fund's net asset value? Explain.

(250 words 7 marks)

Q5. Explain why hedge funds may be able to achieve higher returns for their investors than mutual funds. Explain why the risk of hedge funds may differ from mutual funds. When the market is overvalued, why might hedge funds be better able to capitalize on the excessive market optimism than mutual funds? (150 words 5 marks)