Duration: 2½ Hours **Total Marks: 75**

N.B.: (1) All questions are compulsory
(2) Figures to the brackets to the right indicate marks.

Q1. (A) Fill in the blanks (Any 8): (8)

(1) Effective duration is a duration calculation for bond that have ____________
(a. Longer maturity, b. Embedded Options, c. Shorter Maturity)

(2) Hybrid bonds have the features of both ____________ and Debenture.
(a. Bond, b. Equity, c. Options)

(3) __________ bond has higher risk. (a. Junk, b. Corporate, c. Putable)

(4) ____________ portfolio includes stocks/bonds with high risk/high return.
(a. Aggressive, b. Passive, c. Market Linked)

(5) An example of leading economic indicators include ____________
(a. Consumer Price Index, b. Trade Balance, c. Consumer expectations)

(6) A bond's rating indicates its __________
(a. Reinvestment risk, b. Default risk, c. Interest-rate risk)

(7) A bond with a coupon of 9% when interest rates for similar maturities are 11% will sell ________ (a. Above par, b. Below par, c. At par)

(8) An actively managed equity fund expects to ________
(a. Be able to beat the benchmarks, b. Earn the same returns as the benchmark, c. Underperform when compared with the benchmark)

(9) The duration of a 15-year zero-coupon bond is ________
(a. Smaller than 15, b. Larger than 15, c. Equal to 15)

(10) A call provision in a debt issue allows the issuer to ______
(a. Call out the names of the investors, b. Redeem the debt on maturity, c. Redeem the debt before maturity)

Q1. (B) Match the following columns (Any 7): (7)

	Column A		Column B
1	YTM	a	Rate of Return
2	Price value of basis point	b	Asset Allocation
3	Valuation of Bond	c	Capital gain or losses
4	Forward Contracts	d	Dollar Value
5	Central Government Securities	e	Inverse
6	Price –yield relationship	f	Mortgage-backed securities
7	Interest rate risk	g	Not Exchange Traded
8	Sub-prime crisis	h	Present Value of Cash flows
9	Portfolio Management	i	Semi-annual coupon payments
10	Consistency of Returns	j	Objectives of Portfolio Management

Q2. (a) Define Fixed Income Securities. Explain its advantages and disadvantages. (8)
(b) What are corporate bonds? Explain issue and classification of corporate bonds. (7)

OR

Q2. (c) What are the risks associated with investing in bonds? (8)
(d) Calculate the value of a 3 year, 9% coupon bond with par value of Rs. 100 on which interest is payable semi-annually, if the required return on this bond is 12%. (7)

Q3. (a) Explain in detail Macaulay Duration (8)

(b) What is Convexity? Explain with diagram. (7)

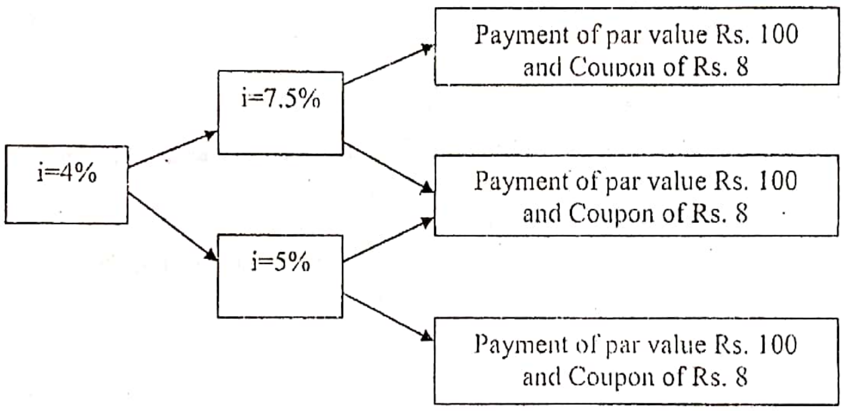
OR

(c) Calculate Macaulay Duration of 6 year bond, carrying 6% annual coupon of face value of Rs. 1000. Interest rate is currently 6%. The bond pays coupon once in a year and pays the principal on maturity. (8)

(d) A 8% annual coupon bond has 2 years to maturity. The interest rate tree is shown in the figure below. Calculate the value of the bond today under following different scenarios if face value is Rs. 100: (7)

(i) Bond is option free

(ii) Bond has call option and call price is Rs. 100



Q4. (a) Explain the Importance of Economic Indicators. (8)

(b) Explain the impact of Sub Prime Crisis on the India Banking System. (7)

OR

Q4. (c) What is Index of Industrial Production (IIP)? Explain its significance. (7)

(d) Explain the causes of subprime crises. (8)

Q5. (a) What do you mean by Bond strategy? Explain Bond Investment Management Process. (8)

(b) What do you mean by Active Bond strategy? Explain its strategies. (7)

OR

Q5. (c) Write Short Note (Any 5): (15)

(1) Fixed Income Market Participants
(2) Convertible bond valuation
(3) GDP and Bond Markets
(4) Bond Indexing
(5) Hybrid Bonds

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