SYBFM sem IV Reg & A.T.K.T Exam April-2018
Debt markets 3/5/18

Q. P. Code: 35602

Time: 2:30 hours

Marks: 75

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

Q1. (A) State Whether True or False: (Any Eight) (8)

1. A callable bond pays an investor a higher coupon than a non-callable bond.
2. Effective duration is a duration calculation for bond that have embedded options
3. A put provision in a debt issue allows investors to redeem debt prior to maturity
4. The "duration" of an interest-bearing bond is less than its maturity
5. Leading indicators can forecast the future movements of a country's economy.
6. Aggressive portfolio has low risk.
7. Yield and Price have direct relationship.
8. Debt securities bought at a discount to their face value generally pay interest at floating rate.
9. A bond's rating indicates its interest-rate risk
10. Bond with put option gives a bond issuer the right, but not the obligation.

Q1 (B) Match the Following Columns: (Any 7) (7)

Column A	Column B
1. Market Risk	a. Measure of interest rate sensitivity
2. Convertible security	b. Standard deviation of the difference between the return of a fund/index and its benchmark index
3. Bond immunization	c. Interest rate anticipation strategy
4. Convexity	d. Strategy used to minimise interest rate risk
5. Price value of a basis point	e. Price sensitivity of a fixed income security in monetary terms
6. Gross Domestic Product	f. Systematic Risk
7. Consumer Price Index	g. Hybrid instrument
8. Asset-backed security	h. Created by pooling non-mortgage assets that is then resold to investors
9. Tracking error	i. Coincident indicator
10. Active strategy	j. Lagging indicator

Q2 (a) Explain the different types of Fixed Income Securities briefly. (8)

Q2 (b) What are the risks associated with investing in bonds? (7)

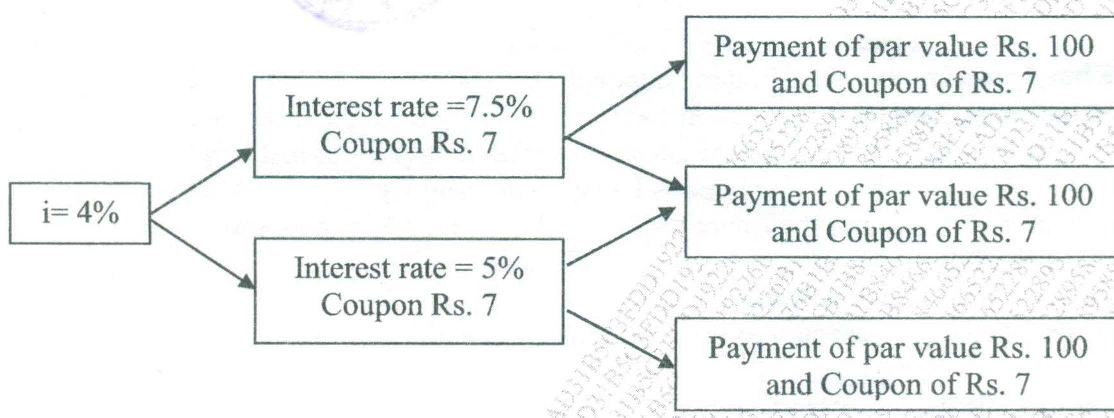
OR

Q2 (c) Define Fixed Income Securities. Explain its advantages and disadvantages. (8)

Q2 (d) Consider a five year, 10% coupon bond with par value of Rs. 1,000 on which interest is payable annually. The required return on the bond is 12%. Find the value of the bond. (7)

Q3 (a) What are callable bond? Explain its advantages and disadvantages to the investor. (7)

Q3 (b) A 7% annual coupon putable bond has 2 years to maturity (Face value Rs. 100). The interest rate tree is shown in the figure below. Calculate the value of the bond today. The bond is putable at Rs. 100. (8)



OR

Q3 (c) Explain Convexity with diagram. (7)

Q3 (d) Calculate the Modified Duration of the 3 year bond, Rs. 1,000 bond with 6% coupon and with interest rate & YTM of 5%. (8)

Q4 (a) Discuss the background of the Sub Prime Crisis. (7)

Q4 (b) What are Economic Indicators? Explain its Types. (8)

OR

Q4 (c) What is GDP? How does it affect bond markets? (7)

Q4 (d) Explain the impact of subprime crisis on Indian Financial Markets. (8)

Q5 (a) What do you mean by Bond portfolio management strategy? Explain the bond investment management process. (8)

Q5 (b) Explain Indexing Strategy of Passive Portfolio Management. (7)

OR

Q5. Write short notes on: **(Any 3 out of 5)** (15)

(a) Fixed Income Market Participants
(b) Putable Bonds
(c) Hybrid instruments
(d) Junk Bonds
(e) Collateralized debt obligations (CDOs)

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