

Time: 2 ½ Hrs.

Marks: 75

N.B: (1) All questions are compulsory. (2) Working note should form part of answer

(1) (A) Choose the correct option and rewrite the statement: (Any eight)

- (1) \_\_\_\_\_ bond has higher risk.  
a) Junk b) Corporate c) Puttable d) Zero Coupon
- (2) Yield and Price have \_\_\_\_\_ relationship.  
a) No b) Direct c) Inverse d) Weighted Average
- (3) \_\_\_\_\_ is a plain vanilla bond.  
a) Straight Bond b) Zero Coupon Bond c) Callable Bond.
- (4) \_\_\_\_\_ refers to sale and purchase of securities in the money market by the central bank.  
a) Open Market Operation b) Monetary Policy c) Reverse Repo d) Money Market
- (5) \_\_\_\_\_ Portfolio includes stocks bonds with high risk/high return.  
a) Aggressive b) Passive c) Market Linked d) Neutral
- (6) An example of leading economic indicators includes \_\_\_\_\_  
a) Consumer Price Index b) Consumer Expectation c) Trade Balance d) Gross Domestic Product.
- (7) A callable bond pays an investor a \_\_\_\_\_ coupon than a non-callable bond.  
a) Lower b) Higher c) Same d) Zero
- (8) Effective duration is a duration calculation for bond that have \_\_\_\_\_.  
a) Longer Maturity b) Embedded Options c) Shorter Maturity d) No Options
- (9) Hybrid bonds have the features of both \_\_\_\_\_ and Debenture.  
a) Bond b) Equity c) Options d) Futures.
- (10) Bond with \_\_\_\_\_ gives a bond issuer the right, but not the obligation.  
a) Put Option b) Call Option c) Hybrid bond d) No Options.



B) State whether True or False (any Seven)

(7)

- 1) Fixed income securities have high risk.
- 2) Successful bidders are those who have bud at or above the cut price.
- 3) The market value of the securities will be inversely affected by movements in interest rates.
- 4) Inflation reduces the purchasing power of the investment income and principal.
- 5) The Duration of a Zero Coupon bond is equal to the maturity
- 6) Greater modified duration has lower price volatility.
- 7) If the market place yield increased above the coupon rate the bond price will drop below per value.
- 8) The value of a bond is equal to the present value of all expected cash flows.
- 9) Aggressive portfolio has low risk.
- 10) A CDO is security whose value is collateralized by a pool of underlying fixed income assets.

- (2) A) Define Fixed Income Securities. Explain its advantages and disadvantages. (8)
- B) What is the factor investors should keep in mind while trading or investing in corporate bonds? (7)
- C) Explain the risks associated with fixed income securities investing. (8)
- D) Calculate fair value of an 8 year, 12% coupon bond with par value Rs. 100 on which interest is payable semi-annually, if the required return on this bond is 14%. (7)
- (3) A) Explain the concept of bonds with embedded options. (7)
- B) What is GDP? How does it affect bond markets and currency? (8)

OR

- C) What is Duration? Explain Modified Duration (7)
- D) Calculate Macaulay Duration of 10% annual coupon paying 5 years bond of Rs. 100 face value. Bond is currently yielding 5%. (8)
- 4) A) what are Economic Indicators? Explain its Types. (8)
- B) Explain the impact of Sub Prime Crisis on India. (7)

OR

- C) What is GDP? How does it affect bond markets and Currency? (7)
- D) Explain the causes of subprime crises. (8)
- 5) A) what do you mean by Bond Portfolio Management Strategy? Explain the bond investment management process. (8)
- B) What do you mean by Active Bond Strategy? Explain its strategies. (7)

OR

- (5) C) Write Short notes: (Any Three out of Five) (15)
- 1) Convexity
  - 2) Junk Bonds
  - 3) Bond Indexing
  - 4) Inflation Linked Bonds
  - 5) Passive Management Strategy.

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