

International Islamic University Chittagong (IIUC)

Department of Economics & Banking

Final Examination: Autumn-2018

Program: BSS (Honours)

Course Code: FIN:4703

Course Title: Financial Investment and Security Analysis

Time: 2.5 Hours

Full Marks: 50

Answer any five (5) of the following questions. All parts of a question must be answered sequentially. Figures in the right margin indicate full marks.

1. a) Evaluate the significance of covariance in the estimation of the risk of a portfolio. 2
b) Following data are related to the two securities: X and Y. Calculate covariance and correlation of the two stocks and comment on them. 4

Year	X	Y
1	7.3	-7.8
2	6.9	-9.5
3	4.5	8.5
4	-2.5	10
5	6.1	4.5

- c) Investors are risk averse. What signal signposts that investors are usually risk averse? 4
2. a) Explain the concept of efficient frontier in the context of portfolio selection. 2
b) Criticize Markowitz Portfolio Model with example. 4
c) The following are the rates of return for Alex Software Corporation and Xerox Electric. 4

Probability	ALEX	XEROX
.20	-.04	.07
.30	.06	-.02
.10	-.07	-.10
.15	.12	.15
.25	-.02	-.06

Compute the correlation coefficient between the rates of return.

What level of correlation did you expect? How did your expectations compare with the computed correlation? Would these two stocks offer a good chance for diversification? Why or why not?

3. a) Differentiate between capital market line and security market line. 2
b) Lanka Bangla Securities has appointed you as security analyst and following data are available for analyzing securities: 8

Security	Estimated Return	Beta	Standard Deviation
1	23	2.0	40
2	45	2.3	45
3	35	2.1	42
4	15	1.0	30