# ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE- 27
## MID-SEMESTER TEST - AUGUST 2016
## MA ECONOMICS – III SEMESTER
## EC 9212: FINANCIAL ECONOMICS

**Time 1 ½ hours**          **Max Marks 35**

### The question paper has ONE printed page and THREE sections

I.     **ANSWER ANY <u>FIVE</u> OF THE FOLLOWING**        2 X5 = 10
1. What is time value of money?
2. State the Fisher's separation theorem.
3. Differentiate between risk averse and risk loving individuals.
4. What is security market line?
5. Give the meaning of the term *factor-replicating portfolios*.
6. What is the price of an equity share in which the cash flow stream follows Gordon's growth model?

II.     **ANSWER ANY <u>ONE</u> OF THE FOLLOWING**        10 X1 = 10
7. Differentiate between idiosyncratic risk and systematic risk. Consider an economy in which the risk free return is 2 percent and the expected rate of return on the market index is 10 percent. The variance of the return on the market index is 20 percent. Two portfolios A and B have expected return 5 percent and 10 percent and variances 20 percent and 50 percent respectively. Calculate the Beta coefficients of both the portfolios. What are the proportions of market risk and idiosyncratic risk for the two portfolios A and B?
8. Show mathematically that holding portfolios consisting of more number of assets allows an investor to reduce the risk he or she bears.

III.    **ANSWER ANY <u>ONE</u> OF THE FOLLOWING**        15 X1 = 15
9. Detail the assumptions and provide a derivation of the capital asset pricing model. Support it with graphical representation.
10. Discuss the different methods of project evaluations. Discuss the strength and weakness of each one of these methods.