

Mid-West University  
Examinations Management Office  
Surkhet, Nepal  
Final Examination-2079  
Master of Business Administration (MBA)  
Semester - IV

R.N.....

Subject: Brand Management  
Full Marks: 100 Pass Marks: 50

Course Code: MGT 552/MKT 543  
Time: 4: 00 Hours

**SECTION A: MULTIPLE CHOICE QUESTIONS (1 × 20 = 20 MARKS)/ (TIME: 20 MINUTES)**

*Tick the best answer*

1. A great effort in terms of time and money is required for \_\_\_\_\_; and despite the effort, results are not guaranteed.
  - a. growth
  - b. profitability
  - c. branding
  - d. promotion
2. Brands are born out of the following strategies:
  - a. Segmentation and differentiation strategies
  - b. Promotion strategies
  - c. Good purchasing and supply chain strategies
  - d. All of the given options
3. Brand identity is followed by \_\_\_\_\_, which is a reflection of what marketers planned to send to the public.
  - a. brand value
  - b. brand image
  - c. advertising
  - d. brand personality
4. Right branding increases \_\_\_\_\_ of the product, which should be more than that of the generic product.
  - a. consumer revolt
  - b. market share
  - c. profit
  - d. value
5. \_\_\_\_\_ are incurred by brands because of failures and questionable business practices that may increase costs and liabilities.
  - a. Brand assets
  - b. Brand liabilities
  - c. Brand equities
  - d. Market failures
6. Introduction of more brands and extensions leads to \_\_\_ with no new benefits to consumers.
  - a. higher cost
  - b. greater revenue
  - c. brand proliferation
  - d. increased competition
7. While defining the industry during the analysis, brand managers must consider as:
  - a. the range of products and services offered by the industry
  - b. a picture of the geographic scope of the industry
  - c. both of the given options
  - d. none of the given options
8. The difference between company's present financial position and the financial objectives is known as:
  - a. contribution gap
  - b. contribution margin
  - c. financial objectives' failure
  - d. low demand in market

9. A \_\_\_\_\_ has to answer the questions like what would be the short of market if our brand is not there.
- a. brand image
  - b. brand picture
  - c. brand manager
  - d. brand association
10. Brand assets include:
- a. the name of the brand
  - b. reputation, relevance, and loyalty
  - c. less quality complaints
  - d. all of the given options
11. A change in positioning may cause \_\_\_\_\_ in price.
- a. an upward change
  - b. a downward change
  - c. both of the given options
  - d. none of the given options
12. \_\_\_\_\_ occurs by maintaining the brand contract while undergoing innovations and modifications to stay current.
- a. Sustainability
  - b. Fit
  - c. Uniqueness
  - d. Credibility
13. When we keep the same brand name of new offerings so that customers may develop an immediate familiarity, the resultant phenomenon is known as:
- a. leveraging
  - b. extension
  - c. diversification
  - d. stretching
14. Introduction to another strength of a medicine by a pharmaceutical company is an example of:
- a. brand extension
  - b. line extension
  - c. brand diversification
  - d. all of the given options
15. Brands are diversified because:
- a. it is essential for brand survival
  - b. some brands have such a high awareness that those are perceived by customers to be in categories where they are not present.
  - c. cost-cutting is possible by advertising products with the same brand name
  - d. all of the given options
16. The \_\_\_\_\_ relates to extra benefits that a brand offers to its customers.
- a. entire positioning
  - b. point of difference
  - c. definition of business
  - d. innovation
17. Benefits of having different brands include all of the following except:
- a. quickly respond to retailers' need
  - b. effectively compete in market
  - c. save the actual brand image
  - d. fill all the gaps in market
18. When the same brand name holds several products in different markets, it is known as the
- a. umbrella brand
  - b. source brand
  - c. multi-brand
  - d. range brand
19. Factors affecting the choice of distribution channel include:
- a. customer value
  - b. sales revenues
  - c. both of the given options
  - d. none of the given options
20. \_\_\_\_\_ provides a good quality of service because of a direct interface with the customers, but it is expensive.
- a. Direct sales
  - b. Telemarketing
  - c. E-marketing
  - d. All of the given options

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**SECTION B: SHORT ANSWER QUESTIONS (5X6 = 30 MARKS)**

Answer any **FIVE** questions:

1. Briefly differentiate between branding and marketing.
2. How can "word of mouth" impact the brand of the company? Explain.
3. Share the 6-pointer plan to build a brand for a new setup for digital marketing company.
4. As a brand manager how will you manage customers giving negative social media reviews about your product?
5. If you are appointed as a Brand Manager of Fonepay, how would you spend your first week?
6. As a marketing manager how can you change brand perception?
7. Can a person be a brand in himself or herself, explain.

**SECTION C: LONG ANSWER QUESTIONS (2X15 = 30 MARKS)**

Answer any **TWO** questions:

8. Devise a branding strategy for relaunching a subdued brand of Tootle.
9. Explain the important role of technology in development a retail store brand with appropriate explain.
10. Successful global brands have very specific attributes that contribute to their success. Please specify some of these attributes for banks in general.

**SECTION D: CASE STUDY (20 MARKS)**

11. Read the **Case** given below and answer the following questions:

**Heinz – Grow Your Own**

This campaign was launched in March 2013.

**Background**

People everywhere love ketchup, but not many realize how many actual tomatoes are used to produce it. Heinz asked us to help educate its core audience of mums and kids that ketchup isn't just made – it's grown.

**Objectives**

We had to educate a nation about a product that has been around for over 130 years, by communicating Heinz's key message to consumers that ketchup isn't just made – it's grown using fresh, healthy tomatoes. We had to do this in a new, up-to-date way that would resonate with Heinz's core audience – mums – and allow us to engage with them while at the same time encouraging them to get their kids involved in the campaign.

**Strategy and execution**

We decided that talk was cheap – the best way to get cut-through with consumers would be to show them what ketchup is really made of. So we took a hands-on approach, by getting people all across the country to grow their own tomatoes. The campaign was activated through the Heinz Tomato Ketchup Facebook community, with a dedicated 'Grow Your Own' hub where fans could enter their details in

order to be sent their own pack of tomato seeds, completely free of charge, courtesy of Heinz. We created a 'Tomato School' to help fans find out how Heinz grows its tomatoes, and how they fit into the Heinz Tomato Ketchup recipe. Fans could also learn how best to grow their own tomatoes, from planting the seeds to nurturing blooms to picking their fully grown tomatoes. Throughout all the stages of growth, fans were able to post their own photos in our 'Greenhouse Gallery', giving inspiration to other would-be tomato growers and 20 Digital Branding in Perspective also giving them the opportunity to win exclusive Heinz Ketchup branded garden goodies. We also created an interactive 'Grow Your Own' game, where people could 'virtually' grow their own tomatoes by reacting to changing conditions – factoring in temperature, bird invasions, watering, weather conditions – all to keep the tomatoes alive and flourishing.

### **Results**

'Grow Your Own' was Heinz's most successful social media campaign to date. While it was led by social media, it went much further than simply creating an app or providing a clever gimmick. The 'Grow Your Own' game was played 59,203 times, up 25 per cent on Heinz Ketchup's previous Facebook game. There were around 300 photos uploaded over the course of the campaign, with mums and kids making up the bulk of the entries with some imaginative and inspiring growing techniques. During the campaign, the Heinz Tomato Ketchup Facebook page gained 66,396 new likes and the campaign reached over 11 million people on Facebook alone, with over 180,000 engaged Facebook users. Most importantly, we had a whopping 31,627 packets of seeds ordered from all over the UK – thousands of green-fingered mums and kids all learning about Heinz Tomato Ketchup, its ingredients and, of course, growing their own tomatoes!

- a. How did this campaign help Heinz gain brand image?
- b. What are the possibilities of this brand strategy failing? showing its reasons Explain.

**THE END**

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Subject: Sales Management  
Full Marks: 100 Pass Marks: 50

Course Code: MGT 553/MKT 547  
Time: 4: 00 Hours

**SECTION A: MULTIPLE CHOICE QUESTIONS (1 × 20 = 20 MARKS)/ (TIME: 20 MINUTES)**

*Tick the best answer*

1. \_\_\_\_\_ duty of the sales coordinator ensures customer liking by accuracy and timely processing of orders
  - a. Order Satisfaction
  - b. Reporting
  - c. Coordination
  - d. Sales Support
2. Cost of Sales is equals to \_\_\_\_\_.
  - a. cost of production
  - b. cost of production + cost of distribution
  - c. cost of distribution
  - d. net profit-cost of distribution
3. Which one of the followings is one of the duties of the sales coordinator which ensures that sales team contact customers and prospects to arrange appointments or make follow-up calls to confirm orders or delivery dates?
  - a. Sales Implementation
  - b. Sales Strategy
  - c. Sales Support
  - d. Sales Representation
4. \_\_\_\_\_ is the process in personal selling where the salesperson meets and greets the buyer and gets the relationship off to a good start.
  - a. Follow-up
  - b. Presentation
  - c. Prospecting
  - d. Approach
5. Brainstorming is \_\_\_\_\_ sales forecasting method
  - a. qualitative
  - b. quantitative
  - c. hybrid
  - d. random
6. A time series which is the sales forecasting method is
  - a. Quantitative
  - b. Qualitative
  - c. Hybrid
  - d. Random
7. A \_\_\_\_\_ indicates how much of a particular product can be sold to a particular segment over some future period, assuming the application of appropriate marketing
  - a. Segment Potential
  - b. Market potential
  - c. Sales Potential
  - d. Market Segment Potential
8. A \_\_\_\_\_ is an estimate of revenue, in a future period under a particular marketing program and an assumed set of economic and other factors outside the unit for which the forecast is made
  - a. segment forecast
  - b. market forecast
  - c. sales forcecast
  - d. market Segment forecast
9. When \_\_\_\_\_ approach is applied in a sales presentation, a salesperson should concentrate, on saying the right things at the right time to get the desired reaction from the prospect/customer
  - a. mental state
  - b. need situation
  - c. need discovery
  - d. stimulus response

10. \_\_\_\_\_ are financial plans that estimate the total revenue a company makes in a specific period.
- sales budget
  - purchase forecast
  - purchase budget
  - sale plans
11. A group of customers and prospects assigned to an individual salesperson is.....
- sales Territory
  - sales Grouping
  - segmenting
  - sales targeting
12. A \_\_\_\_\_ is a sales goal that a sales entity – team or individual – aims to achieve
- sales share
  - sales quota
  - sales revenue
  - revenue
13. The qualifications needed to perform the job are detailed in the \_\_\_\_\_
- job analysis
  - job description
  - job specification
  - job definition
14. What is the part of sales training?
- Equal Employment Opportunity
  - Performance Appraisal
  - Job Analysis
  - Human Resource Development
15. The roles and responsibilities of the employee are detailed in the \_\_\_\_\_
- job description
  - job analysis
  - job specification
  - job definition
16. \_\_\_\_\_ is termed as the activity of interacting with customers via various combination of direct and indirect communication channels namely, websites, mail order, retail stores, catalogues, email, direct mail, mobile etc.
- Multichannel Marketing System
  - Vertical Marketing System
  - Horizontal Marketing System
  - Symmetrical Marketing System
17. \_\_\_\_\_ of the channel member is a major factor in selecting channel partner. It's important to gauge the channel member's ability to sell the company's products in the designated sales territory.
- Industry Experience
  - Sales potential
  - Financial Strength
  - Size
18. \_\_\_\_\_ constitutes the type of products sold by the channel member.
- Product mixture
  - Sales potential
  - Product portfolio
  - Sales outlet
19. \_\_\_\_\_ involves getting right product in right quantity to the right customer in the right place at the right time
- Sales management
  - Sales marketing
  - Sales promotion
  - Marketing logistics
20. Various \_\_\_\_\_ will have different mixes of products and brands, but they all share the same goal of being able to provide a selection of items all under the one roof.
- departmental stores
  - discount stores
  - supermarkets
  - warehouse retailers

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**SECTION B: SHORT ANSWER QUESTIONS (5X6 = 30 MARKS)**

Answer any **FIVE** questions:

1. Explain the sales management scope and function .
2. How does sale has changed in modern scenario? Explain.
3. The main objective of mental state approach is to bring the customer to the desired mental state for closing a sale. Discuss.
4. There are only three basic types of compensation plans: straight salary, straight commission, and a combination of salary and variable elements. Which one is the most effective? Explain.
5. Explain the development of a compensation plan.
6. State the role of information system in distribution management.
7. Discuss the recent retail trends of Nepalese market.

**SECTION C: LONG ANSWER QUESTIONS (2X15 = 30 MARKS)**

Answer any **TWO** questions:

8. Personal selling is not only important to sell the product but also to attract more consumer and to create permanent customers. Explain the importance of personal selling and steps in personal selling process.
9. Why is sales control important? Discuss the steps and methods of sales control.
10. "You eliminate middlemen, but you cannot eliminate essential distribution activities." Discuss, how this statement is supported or refuted by vertical marketing system.

**SECTION D: CASE STUDY (20 MARKS)**

11. Read the **Case** given below and answer the following questions:

**How direct marketing can change markets**

The three classic cases of how direct marketing can transform markets are Dell Computers, First Direct's entry into banking and Direct Line's move into insurance.

Dell Computers was founded in 1984 by Michael Dell in the United States. His conception was to challenge existing players in the computers market by establishing a direct marketing operation that would allow customers to dial Dell to place an order for a computer. The computer, which was based upon customer specification, would be sent direct, eliminating the need for a distributor. Just-in-time production means that computers can be manufactured in four hours. Dell moved into internet marketing in 1996 and achieved over £14 million worth of web-enabled revenue per day in 1999.

First Direct moved into telephone banking in 1989. Its success was based on customer dissatisfaction with traditional branch banks that offered short opening hours, queues and bank charges. By centralising banking operations and offering direct access by telephone, First Direct was able to offer high levels of customer service at low cost. The new service offered 24-hour access and free banking.

The operation has proved to be a huge success, with the number of customers far exceeding target and the highest level of customer satisfaction of any bank.

Direct Line saw a market opportunity in motor insurance. Traditional insurance companies used insurance brokers situated in towns and cities to provide the link to customers. Direct Line placed advertisements on television and in the print media to persuade prospects to phone their telemarketing operation with the inducement of a much cheaper quotation. The entire transaction is conducted over the telephone with the form being sent to the customer simply for signature. By eliminating the broker, Direct Line's cost structure enables it to reduce costs and pass on some of the savings to its customers. The success of its motor insurance has led the company to move into related areas such as home and contents insurance.

### **Questions**

- a. From sales management perspective how do you think direct marketings were helpful in these examples?
- b. The case talks on the advantages of direct marketing however there can be certain disadvantages of it as well. Can you illustrate some disadvantages of direct marketing?
- c. How can the sales force be motivated for direct marketing?
- d. Can you give one example of Nepalese company doing the direct marketing?

**THE END**



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Subject: Service Marketing  
Full Marks: 100 Pass Marks: 50

Course Code: MGT 554/MKT 548  
Time: 4: 00 Hours

**SECTION A: MULTIPLE CHOICE QUESTIONS (1 × 20 = 20 MARKS)/ (TIME: 20 MINUTES)**

*Tick the best answer*

- Services marketing become difficult because of
  - intangibility
  - no demand
  - more complex market
  - difficult to enter the market
- Which of the following statements about the pricing of services (compared to the pricing of goods) is false?
  - The demand for services tends to be more elastic than the demand for goods
  - Cost-oriented pricing is more difficult for services.
  - Comparing prices of competitors is more difficult for service consumers
  - Consumers are less able to stockpile services by taking the advantage of discount prices
- Services that occur without interruption, confusion, or hassle to the customer is called
  - seamless service
  - service audit.
  - functional service
  - departmental service
- The mental energy spent by customers to acquire service is referred to as \_\_\_\_\_.
  - image costs
  - monetary price.
  - energy costs
  - psychic costs.
- Marketing problems caused by inseparability include all of the following except for
  - the service provides a physical connection to the service
  - the involvement of the customer in the production process
  - service standardization and quality control are difficult to achieve.
  - the involvement of other customers in the production process
- The centralized mass production of services is difficult due to
  - inseparability.
  - intangibility.
  - homogeneity.
  - perish ability.
- Which of the following strategies increases the supply of service available to consumers?
  - Creative pricing strategies
  - Reservation systems
  - Capacity sharing
  - Developing complementary services
- The demand strategy in which service providers utilize their down time by marketing to different segments with different demand patterns is associated with:
  - the use of creative pricing strategies
  - the use of reservation systems
  - capacity sharing
  - developing complementary services
- Which one of the followings would not be considered a tangible clue?
  - The appearance of employees
  - The appearance of the firm's physical facilities
  - The smile on an employee's face
  - The quality of instruction in an educational setting.

10. Focusing the firm's marketing efforts toward the existing customer base is called
  - a. excellent customer service
  - b. conquest retention
  - c. customer retention
  - d. courteous retention
11. Service consumers tend to be more brand loyal than goods consumers because
  - a. more choices are available
  - b. brand loyalty lowers the amount of perceived risk
  - c. each service provider provides many brands
  - d. location of the provider is the major driver in the consumer selection process
12. Competitor intelligence should be gathered-----
  - a. Once a year.
  - b. Twice a year.
  - c. Continuously
  - d. When competition is more.
13. Which one of the followings is not a step in the construction process of a service blueprint?
  - a. Obtaining scripts from both customers and employees
  - b. Segmenting customers based on the content of the script.
  - c. Identify steps in the process where the system can go awry.
  - d. Calculating the time frame for the service execution.
14. A buyer's perception of value is considered a trade-off between
  - a. product value and psychic cost
  - b. total customer value and total customer cost.
  - c. image value and energy cost
  - d. service value and monetary cost.
15. Which of the following is not a criterion for effective price discrimination?
  - a. The segments should be identifiable, and a mechanism must exist to price them Differently.
  - b. Different groups of consumers should have similar responses to price.
  - c. Segments should be large enough to be profitable.
  - d. Incremental revenues should exceed incremental costs.
16. Customer frustration resulting from receiving poor service is most similar to-----
  - a. Image costs
  - b. Monetary price
  - c. Energy costs
  - d. Psychic costs
17. Which pricing strategies encourage the customer to expand his/her dealings with the service provider?
  - a. relationship pricing
  - b. price bundling
  - c. benefit-driven pricing
  - d. efficiency pricing
18. Which one of the followings is not a communication objective during the maturity and decline stages of the product life cycle?
  - a. Encourage repeat purchases
  - b. Provide ongoing contact with customers
  - c. Prepare the way for personal selling efforts
  - d. Express gratitude to the existing customer base
19. Which one of the following communication approaches would be appropriate during the growth and maturity stages of the product life cycle?
  - a. Informational
  - b. Informational and persuasive
  - c. Persuasive
  - d. Persuasive and reminder
20. The perceived consequences of a consumer's purchase decision are-----
  - a. financial, social and performance
  - b. social, ethical and performance
  - c. performance, social and ethical
  - d. ethical, social and psychological

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**SECTION B: SHORT ANSWER QUESTIONS (5X6 = 30 MARKS)**

Answer any **FIVE** questions:

1. In segmentation, what are the most common bases to use, provide the examples for each of these bases.
2. Explain the Flower of Service concept and identify each of its petals. What insights does this concept provide for service marketers?
3. Why is it important to consider the distribution of core and supplementary services both separately and jointly?
4. Discuss the role of rate fences in effective revenue management.
5. Why is it necessary to periodically redesign service processes and what are the typical symptoms of a service process that is not working well?
6. Explain why designing an effective servicescape has to be done holistically and from the customer's perspective.
7. Why are loyalty programs and customer relationship management (CRM) systems important enablers of delivering loyalty strategies?

**SECTION C: LONG ANSWER QUESTIONS (2X15 = 30 MARKS)**

Answer any **TWO** questions:

8. Discuss the significance of search, experience, and credence attributes for the communications strategy of a service provider. Assume the objective of the communications strategy is to attract new customers. Discuss with your own illustrations from some service company.
9. Give the examples, based on your own experience, of a reservation system that worked really well and of one that worked really badly. Identify and examine the reasons for the success and failure of these two systems. What recommendations would you make to both firms to improve the system? Discuss.
10. Profile an individual, whose leadership skills have played a significant role in the success of a service organization, identifying personal characteristics that you consider important. Discuss his contributions to the company and the nation as well.

**SECTION D: CASE STUDY (20 MARKS)**

11. Read the **Case** given below and answer the following questions:

LOD: Taking Nepal's Clubbing Scenario to New Heights

As they say, "Follow your heart and do what you love, success will automatically come to you." This statement has been perfectly exemplified by Rabin Shrestha. Serving as Managing Director of Lord of the Drinks (LOD), Reef



Restaurant & Lounge bar, Karma Bar & Lounge, Reef Entertainment Pvt. Ltd. and Solis Performing Arts, he has been in the hospitality sector since 2012 and has always been coming up with new projects that have been a revolutionary change for the town

After getting a degree from Singapore, Rabin came back to Nepal in 2011 and opened the Reef Restaurant & Lounge Bar on 26 January 2013. This was literally a beginning of a new hospitality scenario in the town. The restaurant and hospitality business has been more of a passion for Rabin, and that quest to bring something innovative in this field was always within him. Karma Bar & Lounge was one of the results of this quest, which opened its doors in 2016, and it was then that Nepalese experienced an authentic clubbing scenario, and the party culture kick-started here, as well. However, he wasn't satisfied with even this, and thus, to revolutionize the clubbing scene further, planning for LOD began, and today it has established itself as one of the top-notch clubs in town.

Rabin refers to LOD as a rock bar and club rather than just referring it as a club, as Lord of the Drinks is run as a Rock Bar till 11:30 p.m., and then turns into a club. Lord of the Drinks is definitely serving as one of the international level clubs in town, which comprises of every quality aspect that an international club has; be it the lights, stage, sound, space, or the seating arrangements. Rabin says, "There have been some instances in the past when we were not able to conduct an international level performance here due to lack of a suitable stage. Many artists rejected our proposal to perform here, because we lacked that arrangement. Today, LOD has fulfilled that gap, and we have made sure that each and every artist gets all that is demanded, and even our local artists could get that vibe while performing here."

However, when asked to choose one factor of LOD that makes it stand out from other clubs, Rabin finds the light and sound system to be a step ahead from the rest. The lights, which are hydraulic and fall 50 feet down and move around, is one of the first in Nepal. Similarly, the sound system used is called the D & B Audio Technik which is a high-quality sound system used by many global performers, and has been used for the first time in the country.

Talking about the challenges of running one of the biggest clubs in town, Rabin feels that bringing in sufficient crowd is not difficult, but to filter that crowd is a challenge. Thus, to overcome that, the LOD team has categorized the place into three different sections, namely, Gold, Silver, and Platinum, and has established that niche environment within which you can book the table and get all the money utilized in that package. The price for a table inside begins from 30 thousand and ranges up to 100,000 depending upon the events.

Charm of LOD further increased after visit of former King Gyanendra Shah with his family. Gyanendra Shah video's of dancing to the song 'Rato ra Candra Surya Jangi Nishan Hamro' at a

nightclub has gone viral in social media. In the video, he is seen dancing at LOD along with his daughter Prerana and daughter-in-law Himani Shah. The video was posted on social media. The video titled Surprise Visit by Royal Family has garnered more than 150K views in just 3 days of posting. Former Prime Minister KP Oli also visited LOD to launch a promotional song of his political party during the last election of parliament.

Within this short span, LOD has organized many successful shows, including the international performance by Ayo and Teo, Lamborghini, and also many national performances. The team is soon planning to feature the famous Bollywood singer Neha Kakkar, and other artists are, as well, in the pipe-line. With the aim of establishing LOD among the top 100 clubs in Asia, Rabin looks forward to further improving the place and offering guests a "New Night, New Life" experience.

**Attempt ALL questions.**

- a. Discuss the success factors for LOD being so popular among youth. [5]
- b. Evaluate the decision to open a dancing hub like LOD during such an adverse situation. [5]
- c. Analyze the strengths and the weaknesses of LOD and suggest the future strategies for LOD to remain in the No. 1 choice for youth in the days to come. [10]

**THE END**

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Subject: Financial Institution and Market

Course Code: MGT 546/FIN 546

Full Marks: 100 Pass Marks: 50

Time: 4: 00 Hours

**SECTION A: MULTIPLE CHOICE QUESTIONS (1 × 20 = 20 MARKS)/ (TIME: 20 MINUTES)**

*Tick the best answer:*

1. The capacity of Nepal Rastra Bank to print currency note is:
  - a. Unlimited
  - b. Limited by Gold Holding
  - c. Limited by Gold and Foreign Exchange Holding
  - d. Limited by Gold, Foreign exchange and Government bond holding
2. DJIA (Dow Jones Industrial Average) is associated with .
  - a. NASDAQ
  - b. New York Stock Exchange
  - c. London Stock Exchange
  - d. Shanghai Stock Exchange
3. When we say Market Capitalization, it means:
  - a. Summation of Paid up Capital of all listed companies
  - b. Summation of Balance Sheet of all listed companies
  - c. Summation of (market price X number of all stocks)
  - d. Summation of (market price X number of ordinary shares)
4. In Nepal's context Bank Rate is:
  - a. Fixed by NRB
  - b. Fixed by Banks themselves
  - c. Fixed by Nepal bankers association
  - d. Fixed by Ministry of Finance
5. Base Rate calculation is based on:
  - a. Cost of Funds
  - b. Operating Cost
  - c. CRR and SLR loss
  - d. All of the above
6. SLF stands for:
  - a. Standard Lending Facility
  - b. Standby Lending Facility
  - c. Standard Loan Facility
  - d. Standard Long Term Loan Facility
7. SLR stands for:
  - a. Statutory Liquidity facility
  - b. Standard Liquidity Facility
  - c. Statutory Loan Facility
  - d. Standard Loan Facility
8. Investment Banking business is:
  - a. Long Term lending
  - b. Infrastructure Lending
  - c. Merchant Banking
  - d. Commercial banking
9. Repo (Repurchase Agreement) is undertaken by NRB for:
  - a. Adding Liquidity
  - b. Reducing Liquidity
  - c. Helping difficult banks
  - d. To increase interest rates
10. The instrument of Bankers Acceptance is associated with:
  - a. Import LC
  - b. Export LC
  - c. Providing Loan
  - d. Providing Guarantee

11. The calculation of NEPSE is based on:
  - a. market price of 100 biggest companies
  - b. market price of 100 most profitable companies
  - c. market price of all ordinary shares
  - d. market price of all shares
12. Negative Interest Rate refers to:
  - a. Offered Interest rates lower than the inflation rate
  - b. Offered Interest rates higher than the inflation rate
  - c. Fixed Deposit rates lower than the saving deposit rate
  - d. Fixed deposit rate lower than the Call deposit rate
13. Co-Operatives in Nepal are regulated by:
  - a. NRB
  - b. Ministry of Finance
  - c. National Planning Commission
  - d. None of them
14. The functions of Mutual Funds is to:
  - a. invest its own capital fund
  - b. invest its parent company's Fund
  - c. invest general public's fund
  - d. invest its staff fund
15. Open ended mutual funds refers to:
  - a. getting in open as well getting out also open
  - b. getting in open but getting out not open
  - c. getting in not open but getting out open
  - d. none of the above
16. Close ended Mutual funds refers to:
  - a. getting in open as well getting out also open
  - b. getting in open but getting out not open
  - c. getting in not open but getting out open
  - d. none of the above
17. The distinguishing feature of Treasury Bill is:
  - a. sold at premium
  - b. sold at discount
  - c. sold at par
  - d. none of the above
18. Hang Seng stock market index is associated with:
  - a. Japan
  - b. China
  - c. Singapore
  - d. Hong Kong
19. OTC stands for:
  - a. over the counter
  - b. over the country
  - c. only in the counter
  - d. only in the country
20. Euro Dollar refers to:
  - a. US Dollar instrument issued by US companies in Europe
  - b. US Dollar instrument issued by Non US companies in Europe
  - c. US Dollar Instrument issued by European companies in USA
  - d. US Dollar instrument issued by Japanese companies in USA

Mid-West University  
Examinations Management Office  
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Final Examination-2079  
Master of Business Administration (MBA)  
Semester - IV

Subject: Financial Institution and Market

Full Marks: 100 Pass Marks: 50

Course Code: MGT 546/FIN 546

Time: 4; 00 Hours

*You are required to answer in your own words as far as applicable. The figures in the margin indicate full marks.*

**SECTION B: SHORT ANSWER QUESTIONS (5X6 = 30 MARKS)**

Answer any FIVE questions:

1. Some financial instruments are categorized under Money Market while some are categorized under Capital Markets.
  - a. Distinguish between these two markets [2]
  - b. What are the general instruments under these markets? [2]
  - c. Explain their nature and features. [2]
2. IPO market comes under Primary Markets and NEPSE comes under Secondary Markets,
  - a. In your opinion are both these markets the same or different? Explain by giving suitable examples.[3]
  - b. If given the choice, you would prefer one from the other or both as equally important. Explain it by giving your reasons. [3]
3. Compared to other institutions, the banks in Nepal and in all other countries, are not only regulated, rather heavily regulated.
  - a. How do you justify the banks being so heavily regulated? [3]
  - b. Explain some of the important regulations which banks have to comply with. [3]
4. We come across different concepts like: Commercial Banking, Corporate Banking and Investment Banking.
  - a. Explain the nature and features of all three types of banking [3]
  - b. How are they different from each other? Explain [3]
5. When any company comes to the securities market for either issuance of Stocks or Bonds, they are mandatorily required to be underwritten. Why do you think this provision might have been introduced? What may happen, in the case of any type of issue not being underwritten? [6]
6. Poverty alleviation and Micro Credit has now become more or less synonymous.
  - a. What are the typical features of Micro Credit? [2]
  - b. Why is it always associated with Poverty Alleviation? [2]
  - c. Why is the interest rate of Micro Credit is, generally, always high as compared to other banking loan? [2]
7. Nepal Rastra Bank being the Central Bank is associated with some typical type of functions. There are similarities as well as differences in the Central banking functions performed by different central banks.
  - a. If you have to segregate typical central banking functions into Core Functions and Peripheral Functions, how will you do it? [3]
  - b. Explain, in brief, the typical Core functions and Peripheral Functions of a Central Bank. [3]

**SECTION C: LONG ANSWER QUESTIONS (2X15 = 30 MARKS)**

Answer any TWO questions:

8. On 29<sup>th</sup> Jan 2023, NEPSE went down by some 14 points. In the previous trading day it has gone up. This going up down has now become quite a normal event.
  - a. What is NEPSE Index? [5]
  - b. How is it calculated? Explain by highlighting the process involved in its preparation. [5]



- c. Why do you think currently NEPSE is in downward phase? [5]
9. For the current FY, NRB has published the Monetary Policy on 22 Jul 2022. As with other FY's monetary policy, this year's monetary policy also have some important features. [5]
- a. When someone says Monetary Policy, what does that mean? Explain. [5]
- b. Monetary policies are typically said to carry some standard objectives. Explain them. [5]
- c. What are the tools which NRB uses to conduct its Monetary Policy? [5]
10. Bank and Financial institutions are always associated with the following Financial Intermediating functions
- a. Liability Asset Transformation
- b. Maturity Transformation
- c. Size Transformation
- d. Risk Transformation
- Explain the nature and features of all these transformations with suitable examples. [15]

### SECTION D: CASE STUDY (20 MARKS)

11. Read the Case given below and answer the following questions:

#### Mutual Fund Price-29-Jan-2023

	SECURITY_NAME	CLOSE_PRICE
1	Sanima Equity Fund	11.12
2	Sunrise First Mutual Fund	10.22
3	Global IME Samunnat Scheme-1	10.15
4	NMB 50	9.97
5	NMB Hybrid Fund L-1	9.91
6	NIC Asia Growth Fund	9.73
7	Laxmi Equity Fund	9.60
8	Citizens Mutual Fund -1	9.08
9	NIC Asia Balanced Fund	9.06
10	Nabil Equity Fund	9.05
11	NABIL BALANCED FUND-2	9.00
12	Kumari Equity Fund	9.00
13	NIBL Pragati Fund	8.93
14	Siddhartha Investment Growth Scheme - 2	8.80
15	Kumari Dhanabridhhi Yojana	8.78
16	Siddhartha Equity Fund	8.77
17	CITIZENS MUTUAL FUND 2	8.75
18	Laxmi Unnati Kosh	8.72
19	Sunrise Bluechip Fund	8.50
20	Global IME Balanced Fund-1	8.43
21	NIC Asia Flexi CAP Fund	8.42
22	Prabhu Select Fund	8.36
23	Sanima Large Cap Fund	8.21
24	NIC Asia Select Fund 30	8.15
25	RBB Mutual Fund 1	7.94
26	Mega Mutual Fund -1	7.90
27	Nabil Balanced Fund-3	7.90
28	NIBL Samriddhi Fund -2	7.87

- a. Explain some of the distinguishing features of Mutual Funds. [5]
- b. How are mutual funds operated? How are they different from bank deposits? [5]

- c. How many types of Mutual Funds are there in Nepal? Explain their features. [4]
- d. In terms of Mutual Funds terminology, what is the meaning of NAV (Net Asset Value)? [2]
- e. How is this NAV calculated? [2]
- f. Presently, why are 25 of the 28 Mutual Funds having the market price below their face value? [2]

**THE END**

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Master of Business Administration (MBA)  
Semester – IV

R.No.....

Subject: Strategic Financial Management  
Full Marks: 100 Pass Marks: 50

Course Code: MGT 547/FIN 547  
Time: 4: 00 Hours

**SECTION A: MULTIPLE CHOICE QUESTIONS (1 × 20 = 20 MARKS)/ (TIME: 20 MINUTES)**

Tick the best answer:

1. Which bond has no finite maturity period?
  - a. Straight bond
  - b. Consol bond
  - c. Zero bond
  - d. Floating rate bond
2. The value of a bond is equal to its par value when .....
  - a. the coupon rate is less than the yield to maturity.
  - b. the coupon rate is greater than the yield to maturity.
  - c. the coupon rate and yield to maturity are unknown.
  - d. the coupon rate is equal to the yield to maturity.
3. An investment is an aggressive investment if its beta coefficient is .....
  - a. greater than one
  - b. equal to one
  - c. smaller than one
  - d. zero
4. In which condition, does a two asset portfolio produce a zero-risk portfolio?
  - a. If the correlation coefficient between them is perfectly positive.
  - b. If the correlation coefficient between them is perfectly negative.
  - c. If the correlation coefficient between them is zero.
  - d. If the correlation coefficient between them is unknown.
5. Which measures the statistic show total risk in an investment?
  - a. Expected rate of return
  - b. Standard deviation
  - c. Beta coefficient.
  - d. Coefficient of variation
6. The value of the simple correlation coefficient always lies between.....
  - a. 0 to +1.
  - b. - 1 to 0.
  - c. - 1 to + 1.
  - d. Greater than + 1.
7. When does the indifference EBIT of two plans exist?
  - a. At earnings per share of the two plans are equal
  - b. At dividend per share of the two plans is equal
  - c. At market price under the two plans is equal.
  - d. At profit after taxes of the two plans is equal.
8. What is a correct statement?
  - a. Variance is an indicator of systematic risk.
  - b. Standard deviation is an indicator of systematic risk.
  - c. The coefficient of variation is an indicator of systematic risk.
  - d. Beta is an indicator of systematic risk.
9. The degree of operating leverage shows .....
  - a. percentage change in EBIT when sales changes by 1 percent.
  - b. percentage change in EBT when sales changes by 1 percent.
  - c. percentage change in EPS when sales changes by 1 percent.
  - d. percentage change in EPS when EBIT changes by 1 percent.
10. Which one is an assumption of constant growth stock valuation?
  - a. Growth rate = required rate of return.
  - b. Growth rate < required rate of return.
  - c. Growth rate > required rate of return.
  - d. The growth rate is equal to zero.

11. According to the Gordon model of dividend theory, two birds in the bush means .....
- capital gains are uncertain and will be received in the future.
  - dividend income is immediate and more certain.
  - capital gains are uncertain received immediately.
  - capital gains will be received in the future.
  - none of the above.
12. Based on the Gordon model of dividend theory, what is the optimal dividend policy if the return on investment (r) is smaller than the required rate of return (K)?
- 100% retention.
  - 100% dividend payout.
  - 50% dividend payout and rest retention.
  - An optimal dividend policy does not exist.
13. How is earnings per share (EPS) Calculated?
- Equity is divided by the number of shares outstanding.
  - Before-tax profit is divided by the number of shares outstanding.
  - Operating profit is divided by the number of shares outstanding.
  - Net income is divided by the number of shares outstanding.
14. In which condition does opportunity cost of trade credit exist?
- When a discount is not offered.
  - When a discount is offered but taken.
  - When a discount is offered but not taken.
  - In all of the above situations.
15. When does yield to call exist?
- If a bond is held up to the maturity period.
  - If a bond is held up to the call period.
  - If a bond is held up for more than the call period.
  - If the bond is held up to less than the call period.
16. A lease under which the lessor contributes some portion of the investment and the rest is borrowed from the lender to finance a lease asset is called:
- Direct lease.
  - Leverage lease.
  - Sales and leaseback.
  - Operating lease.
17. What is the capital gain return of an investment?
- Cash income from that investment.
  - Holding period return of that investment.
  - Rupees return from that investment.
  - Percentage value appreciation of that investment.
18. The neutral investor prefers which has the
- lowest variance.
  - lowest standard deviation.
  - highest expected rate of return.
  - lowest coefficient of variation.
19. What is the meaning of 5/15 net 30?
- A 5 percent discount is allowed if payment is made within 15 days otherwise payment must be made within 30 days
  - A 15 percent discount is allowed if payment is made within 5 days otherwise payment must be made within 30 days
  - A 5 percent discount is allowed if payment is made between 15 to 30 days otherwise payment must be made within 30 days
  - A 5 percent discount is allowed if payment is made after 15 days otherwise payment must be made within 30 days
20. An asset is overvalued if .....
- the required rate of return is equal to the expected rate of return
  - the required rate of return is less than the expected rate of return
  - the required rate of return is greater than the expected rate of return
  - the required rate of return and market rate of return both are equal.

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*You are required to answer in your own words as far as applicable. The figures in the margin indicate full marks.*

**SECTION B: SHORT ANSWER QUESTIONS (5X6 = 30 MARKS)**

Answer any FIVE questions:

1. What do you mean by merger and acquisition? How is a merger different from an acquisition? Comment. [2+4]
2. Kathmandu Enterprises has bonds outstanding with a Rs 1,000 face value and 10 years left until maturity. The bonds have an 11 percent annual coupon payment. The current price of these bonds is Rs 1.175. The bonds may be called in 5 years at 109 percent of face value.
  - a. What is the yield to maturity of these bonds? [3]
  - b. What is the yield to call for these bonds if the bond is called in 5 years? [3]
3. David Baseball Bat Company currently has Rs. 3,000,000 in debt outstanding, bearing an interest rate of 12 percent. It wishes to finance a Rs. 4,000,000 million expansion program and is considering three alternatives; additional debt at 14 percent interest (option 1), preferred stock with a 12 percent dividend (option 2), and the sale of common stock at Rs. 100 per share (option 3). The company currently has 800,000 shares of common stock outstanding and is in a 40 percent tax bracket.
  - a. If earnings before interest and taxes are currently Rs. 1,500,000 what would be earnings per share for the three alternatives assuming no immediate increase in operating profit? [4]
  - b. Determine the indifferent point between the debt plan and the common stock plan. [2]
4. SophiComputer Chips Inc. is experiencing a period of rapid growth. Earnings and dividends are expected to grow at a rate of 15 percent during the next 2 years, at 13 percent in the third year, and at a constant rate of 6 percent thereafter. Sophi's last dividend was Rs 1.15, and the required rate of return on the stock is 12 percent.
  - a. Calculate the value of the stock today. [2]
  - b. Calculate the price of the stock at end of the first year. [2]
  - c. Calculate the price of the stock at end of the second year. [2]
5. Macromax Investment Fund has the total capital of Rs 500 million invested in five stocks:

Stock	Investment	Stock's Beta Coefficient
A	Rs 160 million	0.5
B	120 million	2.0
C	80 million	4.0
D	80 million	1.0
E	60 million	3.0

The current risk-free rate is 8 percent, whereas market returns have the following estimated probability distribution for the next period:

Probability	Market Return
0.1	10%
0.2	12
0.4	13
0.2	16
0.1	17

- a. Compute the expected return for the market. [2]  
 b. Compute the beta coefficient for the investment fund. [2]  
 c. Compute the fund's required rate of return for the next period. [2]
6. Delta Company can lease equipment for three years making annual payments of Rs 15,000 for three years at the end of each year. Instead of leasing, it can buy the equipment for Rs 40,000. At the end of the third year, the equipment will have a salvage value of Rs 4,000. The firm's cost of capital is 12 percent and before tax cost of debt is 10 percent. The company uses straight-line depreciation and has a 40 percent tax rate.  
 Required:  
 a. PV of cost of leasing [2.5]  
 b. PV of cost of buying [2.5]  
 c. Should the equipment be leased or purchased? Why? [1]
7. Siddhartha Hotel Ltd. is negotiating one year loan with Kumari Bank for Rs. 5,000,000. Kumari Bank has offered Siddhartha Hotel the following alternatives:  
 a. A 12 percent annual rate on a simple interest loan, with a 20 percent compensating balance required and interest due at the end of the year.  
 b. A 10 percent annual rate on a simple interest loan, with a 20 percent compensating balance required and interest again due at the end of the year.  
 c. A 9 percent annual rate on a discounted loan with a 15 percent compensating balance.  
 Calculate the effective annual interest rate for each alternative. Which alternative would you suggest for Siddhartha Hotel? [6]

### SECTION C: LONG ANSWER QUESTIONS (2X15 = 30 MARKS)

Answer any TWO questions:

8. What are the major features of common stock? How is common stock different from preferred stock? Discussed. [10+5]
9. MM Company currently has 100,000 shares outstanding selling at Rs 100 per share of stock. The company expects to earn Rs. 15 per share from which Rs. 5 will be distributed as a dividend. The firm has an equity capitalization rate of 20%. The company is planning for a profitable expansion project which requires Rs. 2,500,000.  
 Under the condition of distributing dividends and not distributing dividends, determine  
 a. The expected price of stock per share ( $P_1$ ). [5]  
 b. Number of new shares to issue ( $m$ ), and [5]  
 c. Total present value of the firm ( $V$ ). [5]
10. The Shikhar Company needs to increase its working capital by Rs. 10 million for the coming year. It has decided that there are essentially three alternatives of financing available:  
 Alternative 1: Forgo cash discounts, granted on a basis of 3/10, net 30.  
 Alternative 2: Borrow from the bank at 15 percent. This alternative would necessitate maintaining a 12 percent compensating balance.

Alternative 3: Issue commercial paper at 12 percent. The cost of placing the issue would be Rs. 100,000 every 6 months.

- Which alternative results in the lowest annual percentage costs? [5]
- Assuming that the firm would prefer the flexibility of bank financing, provided the additional cost of this flexibility is no more than 2 percent, which alternative should Shikhar select? [5]
- List out some qualitative factors to be considered while choosing an appropriate source of short-term financing. [5]

**SECTION D: CASE STUDY (20 MARKS)**

11. Read the Case given below and answer the following questions:

The expected returns for two firms A and B are as follows.

State of nature	Probability ( $P_j$ )	Rate of return of firm A	Rate of return of Firm B
Great	.1	- 5%	- 10%
Good	.4	10	15
Average	.3	25	10
Bad	.2	30	18

Firm A has a total investment in assets of Rs.75 million, three times the size of firm B.

Assume that a new firm, C, is formed through a merger between Firms A and B. The Share of A and B in the portfolio represented by the new Firm C is based on the ratio of their total assets prior to the merger.

Calculate:

- The expected return and standard deviation of firm A and firm B before the merger. [5]
- The covariance and the correlation between the returns for firms A and B before the merger. [5]
- The expected return of firm C. [5]
- The standard deviation of return for firm C. [5]

**THE END**

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Semester – IV

Subject: Security Analysis and Portfolio Management  
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R. No.....  
Course Code: MGT 548/FIN 548  
Time: 4: 00 Hours

**SECTION A: MULTIPLE CHOICE QUESTIONS (1 × 20 = 20 MARKS)/ (TIME: 20 MINUTES)**

Tick the best answer:

- An annual interest payment divided by the current price of bond is considered as:
  - current yield
  - maturity yield
  - return yield
  - earning yield
- The price of an outstanding bond increases when the market rate:
  - never changes
  - increases
  - earned
  - decreases
- When the price of bond is calculated below its par value, it is classified as:
  - classified bond
  - discount bond
  - compound bond
  - consideration earnings
- The required rate of return in calculating bond's cash flow is also classified as:
  - going rate of return
  - yield
  - earning rate
  - both a and b
- An interest rate which is used in the calculation of cash flow of bond is called:
  - required rate of redemption
  - required rate of earning
  - required rate of return
  - required option
- What's the value to you of a 1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?
  - More than its face value.
  - More than its face value.
  - Equal to its face value.
  - Non of them
- The long period of bond maturity leads to:
  - more price change
  - stable price
  - standing price
  - matures price
- The bond issued by the corporation and exposed to default risk is classified as :
  - corporate bond
  - default bond
  - zero risk bond
  - risk bond
- The value of stock as concluded with the help of analysis by particular investor is as:
  - particular value
  - intrinsic value
  - fundamental value
  - both b and c
- A formula such as an original investment plus an expected capital gain is used to calculate:
  - final stock
  - expected stock
  - expected final stock price
  - final stock price
- The risk of two securities with different expected return can be compared with:
  - coefficient of variation
  - standard deviation of securities
  - variation of securities
  - none of above



12. Portfolio having two risky securities can be turned risk less if:
- the securities are completely positively correlated
  - if correlation ranges between zero and one
  - the securities are completely negatively correlated
  - none of the above
13. Efficient frontier comprises of:
- portfolios that have negatively correlated securities
  - portfolios that have positively correlated securities
  - inefficient portfolios
  - efficient portfolios
14. Efficient portfolios can be defined as those portfolios which for the given level of risk provides
- maximum return
  - average return
  - minimum return
  - none of above
15. Capital market line is
- capital allocation line of market portfolios
  - capital allocation line of risk free asset
  - both a and b
  - none of above
16. This type of risk is avoidable through proper diversification.
- Portfolio Risk
  - Systematic risk
  - Unsystematic risk
  - Total risk
17. Which model predicts that investors will all hold the same portfolio in equilibrium?
- CML
  - CAPM
  - APT
  - Multifactor APT
18. The APT is an equilibrium model developed by:
- Stephen Ross and Richard Roll
  - Harry Markowitz.
  - Stephen Ross
  - Richard Roll
19. According to single index model the inflation risk is an example of:
- systematic risk
  - unsystematic risk
  - total risk
  - diversifiable risk
20. An "aggressive" common stock would have a "beta".....
- equal to zero
  - less than 1
  - greater than 1
  - less than 1

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**SECTION B: SHORT ANSWER QUESTIONS (5 X 6 = 30 MARKS)**

Answer any FIVE questions:

1. As an investor, what investment process do you follow while making investment decision? Do you think Nepalese investors follow investment process? Explain. [4+2]
2. Assume that for assets Q the standard deviation of return is 5.3 percent and residual standard deviation or standard error around asset Q Characteristic line is 1.89 percent. If the market portfolio standard deviation is 6.4 percent. What is the stock Q beta coefficient? [6]
3. You purchased a share of stock on January 15, 19x8 for Rs.40 and sold it on July 15, 19x8 for Rs.42 after collecting a Rs.2 per share cash dividend. (a) What was your single period rate of return for that half-year investment? (b) What was your single period rate of return for that half-year investment, stated at an annualized rate? [3+3]
4. Suppose the current expected return on the market is 18 percent and the risk free rate is 14 percent. The expected return and beta for three stock are listed below. Which is overpriced? Which is underpriced? Draw a graph and how you reach your conclusion about which is overpriced- underpriced. [6]

Stock	Expected return	Beta
F	16%	1.2
A	19	1.3
B	13	0.75

5. The Neptune value fund has sold 150,000 shares to investor. Currently, the fund has accrued investment management fee obligation of Rs 50,000. The fund's portfolio is shown below. [6]

Stock	Share	Price/share
A	50,000	Rs10
B	20,000	7
C	35,000	30
D	10,000	100

Calculate the fund's Net Assets Value.

6. A 10-year, 12 percent semiannual coupon bond, with a par value of Rs 1,000, may be called in 4 years at a call price of Rs 1,060. The bond sells for Rs 1,100. (Assume that the bond has just been issued.)
  - a. What is the bond's yield to maturity? [4]
  - b. What is the bond's current yield? [1]
  - c. What is the bond's capital gain or loss yield? [1]
7. Do you think that Nepalese investors are informative and analytical while making investment decision in securities market of Nepal? Explain. [6]

**SECTION C: LONG ANSWER QUESTIONS (2X15 = 30 MARKS)**

Answer any TWO questions:

8. Assume that a two factor model is descriptive of reality and determine the equation that describes the equilibrium return for the following three portfolios:

portfolios	E(r)	Bi1	Bi2
D	10%	1.2	0.8
E	12	2	0.5
G	14	2.1	1.2

Using the above information, assume that portfolio I exists and has the following characteristics:

Portfolios	E(r)	Bi1	Bi2
I	14%	1.6	0.65

What arbitrage opportunity is present?

[15]

9. Three automotives analysis, Mr. G. Gurung, Mr. D. Dahal and Mr. N. Nakarmi, are all analyzing the B. Corporations' common stock. They learned that Mr. D Bajracharya, who founded the firm, laid down a no-debt financing policy that the firm adheres to even through Mr. Bajracharya Passed away years ago. All there analysts agree that.

- Mr. Bajracharya has a beta indicating that a capitalization rate of  $k = 12$  percent is appropriate for the stock.
- Next year's earning per share are expected to be Rs. 7.50 and
- Corporation is expected to retain one third of its earning to finance its expansion.

However, the three analysts foresee different profit prospects for the Corporation. Mr. Gurung forecasts that the corporation will earn an internal rate of return of 20 percent for the foreseeable future. Mr. Dahal's forecast is more dire: he predicts a 10 percent rate of return. Mr. Nakarmi projects a 12 percent rate of return on Corporation's internal investments. Do the facts and assumptions that the three analysts are using imply significantly different intrinsic values for Corporation's stock? Explain.

[15]

10. Compute the beta coefficient for stock A and B with the information given below:

Stock	Correlation coefficient with market	S.d
A	0.40	0.50
B	0.75	0.60

The variance of market return is 0.20.

- Which stock has the most total risk?
- Which one is the most undiversifiable risk?
- Which one stock has the most total risk?

[5]

[5]

[5]

#### SECTION D: CASE STUDY (20 MARKS)

11. Read the Case given below and answer the following questions:

Include two risky stock funds M and N, and T-bills. Data for the universe are as follows:

Stock-funds	Expected-return	Standard-deviation
M	20%	40%
N	30%	60%
T-Bills 8%		0%

Correlation coefficient between M and N is- 0.50

- Draw the opportunity set of fund M and N.
- Find the optimal risky portfolio, P and its expected return and standard deviation.
- Find the slope of the CAL (capital allocation line) supported by T-bills and portfolio P.
- How much does an investor with  $A=4$  invest in funds M and N and T- bills?

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