2013

[July]

ECONOMICS

Financial Economics

Full Marks: 75; Time: 3 hours

The figures in the margin indicate full marks for the questions

Answer **five** questions, selecting at least **one** from each Credit

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CREDIT – I

1. What are the goals of financial management? Critically examine profit maximization as a criterion for financial management decisions. (3+12)

2. What is meant by 'Time Value of Money'? Explain the concepts of 'Present Value' and 'Future Value'. Discuss the compounding and discounting techniques. (3+6+6)

CREDIT-II

3. Write an essay on the Indian Capital Market, highlighting the issue mechanism in the primary market. (15)

4. Critically examine the capital asset pricing model, giving its assumptions. (15)

CREDIT-III

5. (a) Describe how you would determine the various components of cost of capital.
   (b) A company has 15% irredeemable preference shares of the face value of Rs 100. Flotation costs are estimated at 5% of the expected sales price. Calculate the cost of capital, if the preference shares are issued at (i) par (ii) 10% discount (iii) 10% premium. If the dividend tax is 5%, calculate the after tax cost of capital, for all the three cases above. (9+6)

6. Write short notes on the following:
   (i) Debt and equity (ii) Stock dividend and stock split
   (iii) Determinants of dividend policy (3×5=15)

CREDIT-IV

7. (a) What are options? Distinguish between call option and put option with example. (2+5)
   (b) Explain the following concepts relating to an option.
   (i) American option (ii) European option (iii) Option premium (iv) At-the-money (4×2=8)

8. What is a financial futures contract? Discuss the various types of financial futures contracts that are traded in India. Also, write a note on the evolution of futures market in India. (3+7+5)