

2012

[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

CREDIT – I

1. (a) What are the main forms of business organization? Give their merits and demerits.
(b) Write a note on the wealth maximization criterion. (2+8)+5
2. (a) Define risk and return of a portfolio. Explain how you would calculate them, taking an example of your own.
(b) Write about the Profit and Loss account. (3+7)+5

CREDIT-II

3. What is the money market? How does it differ from the capital market? Write about the different financial instruments that are traded in the money market. (3+3+9)
4. (a) Define equity capital. Give the salient features of equity shares.
(b) Describe the various types of debentures. (3+6)+6

CREDIT-III

5. (a) Describe how the cost of perpetual debt and redeemable debt of a firm are calculated.
(b) A company has a 10% perpetual debt of Rs 1,45,000. The tax rate is 30%. Find out the cost of capital before tax as well as after tax, assuming that debt is issued
(i) at par (ii) at 10% discount and (iii) at 10% premium. (5+4)+6
6. (a) State and prove Modigliani and Miller's irrelevance of dividends hypothesis.

- (b) Explain how dividend payout ratio, and legal and contractual obligations influence the dividend policy of a firm. (9+6)

CREDIT-IV

7. What is a mutual fund? How is the NAV of a mutual fund calculated? Explain the different types of mutual funds that are operating in India today. (3+3+9)

8. Write notes on any **two** of the following: $2 \times 7\frac{1}{2} = 15$

- (a) Options
- (b) Different types of Swaps
- (c) Forward Contract
