

Name:  
Enrolment No:



UNIVERSITY WITH A PURPOSE

**UNIVERSITY OF PETROLEUM & ENERGY STUDIES**

**End Semester Examination (Online) – December, 2020**

**Program: BA(EE)**  
**Subject/Course: Financial Economics**  
**Course Code: ECON2002**

**Semester: III**  
**Max. Marks: 100**  
**Duration: 3 Hours**

**Section-A**

- 1. Each question will carry 5 marks**
- 2. Select the correct answer(s)**

S.No.	Question	Marks	COs
1	The purpose of the financial market is to: A. Increase the price of common stocks. B. Lower the yield on bonds. C. Allocate savings efficiently. D. Control inflation.	5	CO 1
2	You want to buy an ordinary annuity that will pay you \$4,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity is closest to A. \$32,000. B. \$39,272. C. \$40,000. D. \$80,000.	5	CO 2
3	In a typical loan amortization schedule, the total rupee amount of money paid each period ____ . A. increases with each payment B. decreases with each payment C. remains constant with each payment	5	CO 1
4	If the intrinsic value of a stock is greater than its market value, which of the following is a reasonable conclusion? A. The stock has a low level of risk. B. The stock offers a high dividend payout ratio. C. The market is undervaluing the stock. D. The market is overvaluing the stock.	5	CO 2

5	Interest rates and bond prices A. move in the same direction. B. move in opposite directions. C. sometimes move in the same direction, sometimes in opposite directions. D. have no relationship with each other (i.e., they are independent).	5	CO 1
6	A line that describes the relationship between an individual security's returns and returns on the market portfolio. A. characteristic line B. security market line C. capital market line D. beta	5	CO 1

**Section-B**

1. Each question will carry 10 marks
2. Instruction: Write short/ brief notes

7.	What is risk? How can risk of a security be calculated? Explain your answer with the help of an example. (Hint: You can use the following data for your answer)	10	CO 2												
	<table border="1"> <tr> <td>Return (%)</td> <td>-20</td> <td>-10</td> <td>10</td> <td>15</td> <td>20</td> <td>25</td> </tr> <tr> <td>Probability</td> <td>0.05</td> <td>0.10</td> <td>0.20</td> <td>0.25</td> <td>0.20</td> <td>0.15</td> </tr> </table>			Return (%)	-20	-10	10	15	20	25	Probability	0.05	0.10	0.20	0.25
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Probability	0.05	0.10	0.20	0.25	0.20	0.15									
8.	Explain the difference between forward and futures contract.	10	CO 2												
9.	Does diversification reduce the risk of investment? Explain with an example. You can use the following table to answer.	10	CO 2												
	<table border="1"> <tr> <td>Economic Condition</td> <td>Probability</td> <td>Return (%) A</td> <td>Return (%) B</td> </tr> <tr> <td>Good</td> <td>0.5</td> <td>40</td> <td>0</td> </tr> <tr> <td>Bad</td> <td>0.5</td> <td>0</td> <td>40</td> </tr> </table>			Economic Condition	Probability	Return (%) A	Return (%) B	Good	0.5	40	0	Bad	0.5	0	40
Economic Condition	Probability			Return (%) A	Return (%) B										
Good	0.5	40	0												
Bad	0.5	0	40												
10.	Define systematic risk and Unsystematic risk. Explain with examples.														
11	What are the factors influence option prices? Explain.	10	CO 3												

**Section-C**

1. Each question carries 20 Marks.
2. Instruction: Write long answer.

12	What is the capital asset pricing model? Explain its assumptions and implications. <b>Or</b> Explain the economic benefits of derivative markets. Do you think energy products should be traded in derivative markets? <b>Or</b> Explain Modigliani–Miller theorem of capital structure.	20	CO 4
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