PGDM / PGDM (IB), 2013-15

Fixed Income Securities

DM-511 / IB-506

Trimester – V, End-Term Examination: December 2014

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.

Section A: Please attempt 3 questions out of 5 (Short questions), 15 Marks

Q 1. What is meant by marking a position to market?

Q 2. Explain why you agree or disagree with the following statement " The price of an inverse floater will increase when the reference rate decreases"

Q 3. What are the limitations of using duration as a measure of a bond's price sensitivity to interest rate changes?

Q 4. Explain whether or not an investor can determine today what the cash flow of a floating rate bond be

Q 5. Does an investor who buys an zero coupon bond face a re-investment risk?

Section B: Please attempt 2 questions out of 3 (Long Questions), 20 Marks

Q 1. "If two portfolio have the same duration, the change in their value when interest rates change will be the same". Explain why you agree or disagree with this statement. What is convexity adjustment and how is it used to calculate the price change for a given yield change

Q 2. What is a yield curve and how is it constructed? Why is the Treasury yield curve the one that is most closely watched by market participants?

Q 3. Explain difference between futures contract and forward contract? What are the ideal uses of futures contract?

Section C: Compulsory Case study, 15 Marks

Consider a bond selling at par value Rs. 100 with a coupon rate of 7% and 10 years to maturity

Q 1. What is the price of this bond if the required yield is 10%?

Q 2. What is the price of this bond if the required yield increases from 10% to 12 %, and by what percentage did the price of the bond change?

Q 3. Calculate the Modified duration of this bond