

ST. JOSEPH’S UNIVERSITY, BENGALURU -27

M.A ECONOMICS – III SEMESTER

SEMESTER EXAMINATION: OCTOBER 2023

**(Examination conducted in November /December 2023)**

EC9521 – FINANCIAL ECONOMICS

(For current batch students only)

**Time: 2 Hours Max Marks: 50**

**This paper contains ONE printed page and THREE parts**

**PART-A**

1. **Answer any FIVE of the following. 2X5=10**
   1. Differentiate between risk and uncertainty in decision making.
   2. Define CAPM.
   3. Define dividend policy and its connection to firm valuation.
   4. What are treasury bills? Mention its types.
   5. Mention any four functions of stock exchanges.
   6. Define Mutual Funds. Mention its types.
   7. What is Securitization?

**PART-B**

1. **Answer any TWO of the following. 5X2=10**
   1. Describe the Von-Neumann-Morgenstern method for constructing a utility index. How does this method help individuals make choices in risky situations?
   2. You are evaluating a project with an initial investment of Rs.100, 000. The project is expected to generate cash flows of Rs.30, 000 in Year 1, Rs.40, 000 in Year 2, and Rs. 50,000 in Year 3. The discount rate is 12%. Calculate the IRR of the project.
   3. Critically examine the Modigliani-Miller (MM) approach to capital structure.

**PART-C**

1. **Answer any TWO of the following. 15X2=30**
   1. Discuss in detail the classification of Indian Financial Market.
   2. Elaborate on the Financial Crisis 2008-09 and lessons learnt from the crisis.
   3. Calculate the PBP, Discounted PBP and NPV of two projects and suggest which of the two projects should be accepted assuming a discount rate of 15%

|  |  |  |
| --- | --- | --- |
| Particulars | Project A | Project B |
| Initial Investment | Rs. 1,00,000 | Rs. 1,20,000 |
| Estimated Life | 5 Years | 5 Years |
| Scrap Value | Rs. 10,000 | Rs. 11,000 |

Cash flows are as follows: (Amount in Rs.)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Project A | 45,000 | 50,000 | 48,000 | 58,000 | 62,000 |
| Project B | 35,000 | 50,000 | 55,000 | 60,000 | 53,000 |