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Your Roll No.....

2248

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M.A. Winter Semester

ECONOMICS

Course 503 – Financial Markets

Time : 2-1/2 hours

Maximum Marks : 70

(Write your Roll No. on the top of immediately on receipt of this question paper).

Attempt any four questions.

1. Assuming inter-temporal utility maximization, derive the Consumption CAPM. What are its distinct implications? 17 ½

2. Given a Markowitz feasible set, a risk free rate and a Capital Market Line, derive the Security Market Line. 17 ½

3. Distinguish between “market risk” and “unique risk”. Under the framework of Capital Asset Pricing model, how are investors compensated for bearing only the market risk? 17 ½

4. Explain the Black—Scholes model of option pricing. What kind of investment strategy does it suggest if the portfolios can comprise of risk free bonds, options and the underlying stock. 17 ½

5. (a) How are futures priced?
(b) As models of asset pricing can Arbitrage Pricing Theory and CAPM be synthesized ? 9, 8½