

Register Number:

Date:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**MA ECONOMICS– II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2018**

**EC 8516: Financial Economics**

Time- 2 ½ hrs Max Marks-70

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

**PART A Answer any TEN of the following 2 X10 = 20**

1. Differentiate between risk and uncertainty.
2. What is Arrow Pratt’s measure of risk aversion?
3. Explain St. Petersburg paradox.
4. State the Friedman Savage hypothesis.
5. Give the meaning of the *term time value of money*.
6. Differentiate between bond and equity.
7. Define the term portfolio and portfolio weight with example.
8. What is leverage?
9. Differentiate between primary and secondary market.
10. What is dematerialization?
11. Explain the difference between money market and capital market.
12. What are mutual funds?

**PART B Answer any TWO of the following 10 x 2 = 20**

1. Write a note on measurement of risk aversion.
2. Explain the NPV, IRR and payback method of project evaluation.
3. Discuss the different methods of raising equity.

**Part C Answer any TWO of the following 15x 2 = 30**

1. What are the problems of utilizing expected value in modeling uncertain outcomes? In this context explain Von– Neumann – Morgenstern method of constructing utility index.
2. State the assumptions and explain the Modigliani Miller (MM) theorem. Do you think that the propositions given by MM theorem will hold under presence of tax and information asymmetry? Justify your answer.
3. Discuss the Global Financial Crisis of 2008-09 and the lessons learnt from it.