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## May 2011,SFM Solution

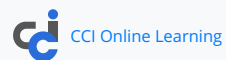
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shaishav soni (CA final) 30 June 2011

Here is SFM May 2011 solution asked by someone,i also find it earlier on Caclubindia.find attachment.

Attached File : 559642 754532 30161 717095 ca final sfm may 11.pdf downloaded: 151 times



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shailaja samant (Manager) 05 July 2011

Reply from prof NK Jain:

I differ on solution given in the attachment for question 1(a) & (b). According to me answer should be :

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Answer 1 (a)

Return of the share E (R) as under

$$E(R_f) = R_f + B_1F_1 + B_2F_2 + \dots + B_nF_n$$

Where  $B_1$  is firm j's factor -1 Beta



$F_1$  is surprise in factor-1 and so on.....

$$E(R_f) = 9.25 + 1.2(7.70 - 7.70) + 1.75(7 - 5.50) + 1.3(9 - 0.75) + 1.70(12 - 10) + 1(7.50 - 7)$$

$$E(R_f) = 9.25 + 0 + 2.625 + 1.624 + 3.4 + 0.50$$

$$E(R_f) = 17.40\%$$

Answer 1 (b)

|   | 3 Month     | Value of Call<br>@ E =450 | Expected<br>$V_c$         |
|---|-------------|---------------------------|---------------------------|
|  $P = 0.285$     | $S_t = 500$ | 50                        | $14.25 = 50 \times 0.285$ |
| $S_0 = 420$   |             |                           |                           |
|  $1 - P = 0.715$ | $S_t = 400$ | 0                         | $0 = (0 \times 0.715)$    |
|   |             | Expected $V_c$            | $= 14.25$                 |

Expected share price at 32 month

$$E(S_t) = 500p + 400(1 - p)$$

As per risk -neutral method,

$$E(S_t) = \text{Future value of } S_0 = 420$$

$$\text{So, } 500p + 400(1 - p) = 420 \times e^{0.02}$$

$$\text{or, } 500p + 400 - 400p = 420 \times 1.0202 = 428.484$$

$$\text{or, } 100p = 28.484$$

$$\text{or, } p = 0.285$$

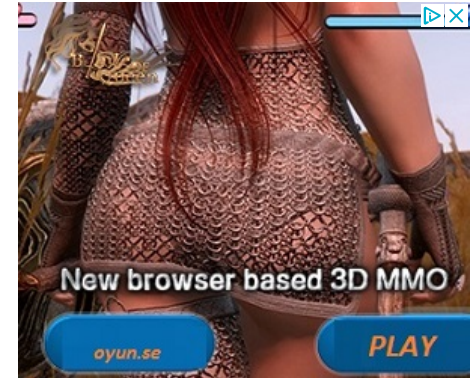
$$1 - p = 0.715$$

$$\text{Expected } V_c = 50 \times 0.285 + 0 \times 0.715 = 14.25$$

$$C_0 = \text{pv of call} = 14.25 \times e^{-0.08 \times 3/12}$$

$$= 14.25 / 1.0202$$

$$= 13.97$$



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