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| **ASSIGNMENTSESSION** | **MARCH 2024** |
| **PROGRAM** | **BACHELOR OF COMMERCE** |
| **SEMESTER** | **V** |
| **COURSE CODE & NAME** | **DCM 3102- INVESTMENT OPTIONS AND MUTUAL FUNDS** |
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**Assignment Set – 1**

**1. a. Elaborate on the types of Investors in the Indian economy.**

**b. Discuss the meaning and use of the DCF Valuation method.**

**Ans 1.**

**a. Types of Investors in the Indian Economy**

Investors in the Indian economy can be broadly categorized based on their investment behavior, goals, and the financial instruments they choose. Understanding these categories is crucial for tailoring financial advice and investment products to meet diverse needs.

1. **Retail Investors**: These are individual investors who invest in stocks, mutual funds, bonds, and other securities. Retail investors typically invest smaller amounts and are driven by goals such as retirement savings, educational expenses, or purchasing

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**2. Write brief notes on the following:**

**a. Modern Portfolio Theory and 6**

**b. Arbitrage Pricing Theory 4**

**Ans 2.**

**a. Modern Portfolio Theory (MPT)**

Modern Portfolio Theory (MPT), formulated by Harry Markowitz in the 1950s, revolutionized the way investors think about risk and return. Central to MPT is the idea that an investor can achieve optimal returns by diversifying their investment portfolio across various assets that do not move in tandem. This diversification helps in reducing the risk of the portfolio without necessarily sacrificing potential returns.

**Key Components of MPT**:

* **Risk and Return**: MPT posits that the risk of any investment can be reduced and the

investment portfolios.

**3.a. Write the steps involved in the EIC Process.**

**b. Using the Capital Asset Pricing Model (CAPM), if the risk-free rate is 3%, the expected market return is 8%, and an asset's beta is 1.5, calculate the expected return of the asset.**

**Ans 3.**

**a. EIC Process**

The EIC (Economy-Industry-Company) Analysis framework is a structured approach used by investors to analyze and evaluate the attractiveness and potential profitability of various investment opportunities. This method involves analyzing three interconnected layers: the economic, industry, and company levels. Here’s how it typically unfolds:

**Economic Analysis**: This is the initial stage where the macroeconomic environment is assessed. Analysts evaluate economic indicators such as GDP growth rates, inflation, interest

b. The Capital Asset Pricing Model (CAPM) is a widely used model in finance that helps investors understand the relationship between risk and expected return. The model states that the expected return of an asset (Ri) is equal to the risk-free rate (Rf) plus the asset's beta (β) times the expected market return (Rm), minus Rf.

Mathematically, this can be expressed as:

Ri = Rf + β(Rm - Rf)

Where:

Ri = Expected return of the asset

Rf = Risk-free rate

β = Beta of the asset

**Assignment Set – 2**

**4. Analyze the reasons to invest in Real Estate and also discuss the risks associated with Real Estate Investments.**

**Ans 4.**

**Analysis of Reasons to Invest in Real Estate and the Associated Risks**

Real estate investment remains a popular choice due to its potential for steady income, capital appreciation, and diversification benefits. However, like all investment opportunities, it comes with inherent risks that must be carefully considered.

**Reasons to Invest in Real Estate**:

**Income Generation**: Real estate can provide a consistent source of income through rental

**5.a. Tabulate the differences between Forwards and Futures.**

**b. Elaborate the advantages of using Derivatives.**

**Ans 5.**

**a. Differences Between Forwards and Futures**

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| **Aspect** | **Forwards** | **Futures** |
| **Definition** | Private agreements to buy or sell an asset at a specified future date and price. | Standardized contracts to buy or sell assets on a public exchange at a future date. |
| **Trading Venue** | Traded over-the-counter (OTC), directly between parties. | Traded on organized exchanges. |
| **Customization** | Customizable in terms of contract size, expiration date, and asset type. | Standardized in terms of contract size, expiration date, and asset type. |

**b. Advantages of Using Derivatives**

**Risk Management and Hedging**: Derivatives are critical tools for managing and mitigating risk in financial portfolios. They allow individuals and institutions to hedge against price movements in various assets, providing a form of insurance against adverse market conditions. For example, a farmer can use derivatives to lock in a price for crops, reducing the risk of loss from price drops. Similarly, an investor holding stocks can use equity

**6.a. Discuss briefly, the chief constituents of a Mutual Fund.**

**b. An investor is considering adding a hedge fund allocation to a portfolio that has returned 18% over the last year. The current risk-free rate is 3%, and the annualized standard deviation of the portfolio’s monthly returns was 12%. Calculate the Sharpe Ratio for the year.**

**Ans 6.**

**a. Chief Constituents of a Mutual Fund**

Mutual funds are a popular investment vehicle that pools money from multiple investors to purchase a diversified portfolio of stocks, bonds, or other securities. Understanding the key constituents of a mutual fund can help investors make informed decisions about their investments.

**Portfolio Manager**: The portfolio manager is the primary decision-maker in a mutual fund. They are responsible for selecting and managing the investments within the fund’s portfolio

**b.** The Sharpe Ratio is a risk-adjusted measure that calculates the excess return (or excess return over the risk-free rate) per unit of risk (measured by the standard deviation). In other words, it helps us determine how well a portfolio has performed relative to its level of risk.

Let's break it down step by step:

Given information:

1. Portfolio return over the last year: 18%

2. Risk-free rate: 3%