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| **SESSION** | **Jul-Aug 2024** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **4** |
| **course CODE & NAME** | **DFIN403 MERCHANT BANKING AND Financial Services** |
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**1. What do you mean by merchant banking? How are merchant banks different from commercial banks?**

**Ans 1.**

**Definition of Merchant Banking:**

Merchant banking refers to specialized financial services provided by merchant banks, which primarily cater to corporate clients. These services include issue management, corporate advisory services, underwriting, portfolio management, and facilitating mergers and acquisitions. Merchant banks do not accept deposits or provide traditional banking services like commercial banks. Instead, they focus on capital markets and corporate finance.

Merchant banks originated in Europe during the Middle Ages when merchants facilitated trade financing. Today, they play a pivotal role in modern financial markets by assisting companies

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**2. Define credit rating? Discuss the advantages and limitations of a credit rating to the company.**

**Ans 2.**

**Definition of Credit Rating:**

Credit rating is an evaluation of a company’s or an individual’s creditworthiness based on their financial history and current financial position. It reflects the likelihood of the borrower repaying debt obligations. Credit rating agencies, such as Moody’s, Standard & Poor’s (S&P), and CRISIL, assign ratings that range from high grades (indicating low risk) to low grades (indicating high risk).

**Advantages of Credit Rating for a Company:**

* **Access to Capital Markets:** A favorable credit rating enables companies to raise funds

**3. Explain the concept of mutual funds. How does it differ from other investment alternatives like stocks and bonds?**

**Ans 3.**

**Concept of Mutual Funds:**

A mutual fund is a pooled investment vehicle that collects funds from multiple investors and invests them in a diversified portfolio of assets, such as stocks, bonds, money market instruments, or other securities. These funds are managed by professional fund managers who aim to achieve specific investment objectives, such as growth, income, or capital preservation.

Mutual funds provide small and retail investors access to professionally managed portfolios, allowing them to diversify their investments without requiring substantial capital or expertise.

**4. Discuss the methods used for equity valuation with suitable examples.**

**Ans 4.**

**Concept of Equity Valuation:**

Equity valuation involves determining the intrinsic value of a company’s shares based on its financial performance, growth prospects, and market conditions. Investors use valuation methods to assess whether a stock is undervalued, overvalued, or fairly priced, aiding in investment decisions.

The primary approaches to equity valuation include discounted cash flow (DCF), relative

**5. Explain the importance of financial derivatives in risk management. Discuss the types of derivatives with examples.**

**Ans 5.**

**Importance of Financial Derivatives in Risk Management:**

Financial derivatives are instruments whose value is derived from underlying assets, such as stocks, bonds, commodities, currencies, or interest rates. They play a vital role in risk management by providing tools to hedge against fluctuations in prices, interest rates, and exchange rates. By allowing companies and investors to mitigate potential losses, derivatives contribute to market stability and financial efficiency.

**Hedging Against Price Volatility:** Derivatives help businesses manage risks associated with unpredictable price movements in commodities, currencies, or securities. For instance, an e

**6. Explain the role of credit derivatives in managing credit risk. Discuss different types of credit derivatives with examples.**

**Ans 6.**

**Role of Credit Derivatives in Managing Credit Risk:**

Credit derivatives are financial instruments that allow parties to transfer or manage credit risk without transferring the underlying asset. These instruments are crucial for banks, financial institutions, and corporations to mitigate the risk of borrower default, improving financial stability and freeing up capital for other investments.

**Functions of Credit Derivatives in Risk Management:**

**Hedging Credit Risk:** Credit derivatives enable lenders to protect themselves against the risk