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| **SESSION** | **JULY-AUGUST 2024** |
| **PROGRAM** | **BACHELOR OF COMMERCE (B.COM)** |
| **SEMESTER** | **V** |
| **COURSE CODE & NAME** | **DCM3102 INVESTMENT OPTIONS AND MUTUAL FUNDS** |
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**Set – 1**

**1. Explore the significance of Foreign Institutional Investors (FIIs) or Foreign Portfolio Investors (FPI) in the Indian stock market.**

### Ans 1.

### Significance of Foreign Institutional Investors (FIIs) or Foreign Portfolio Investors (FPI) in the Indian Stock Market

**Introduction**  
Foreign Institutional Investors (FIIs) or Foreign Portfolio Investors (FPIs) play a critical role in shaping the Indian stock market. Their significance has grown steadily since the liberalization of the Indian economy in 1991, which opened the gates for foreign investments. FIIs/FPI primarily invest in stocks, bonds, and other financial instruments, significantly influencing the market's liquidity and stability.

**Contribution to Market Liquidity** One of the most significant impacts of FIIs/FPIs is their

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**2. a) Explain the term Beta and its relevance in investment decisions.**

**b) Calculate the expected return using the CAPM formula.**

**Given: Risk-free rate (Rrf) = 3%, Beta (Ba) = 1.2, Expected return of the market (Rm) = 8%.**

### Ans 2.

### a) Explanation of Beta and Its Relevance in Investment Decisions

**Understanding Beta**

Beta is a measure of an asset's sensitivity to market movements. It quantifies the relationship between the returns of an individual stock or portfolio and the overall market. Represented mathematically, Beta is calculated as the covariance of a stock’s returns with the market returns divided by the variance of the market returns. A Beta value can range from negative to positive, with different interpretations:

* A Beta of 1 indicates the asset’s returns move in tandem with the market.

**3. Explain the discounted cash flow method of bond valuation.**

**Ans 3.**

**Introduction to Bond Valuation**

Bond valuation is a method to determine the fair value of a bond by estimating its future cash flows and discounting them to their present value. The discounted cash flow (DCF) method is one of the most widely used approaches in this context. This method evaluates the intrinsic value of a bond based on its coupon payments and the principal repayment at maturity,

fundamental tool for assessing bond prices and their alignment with market expectations.

**Set – 2**

**4. Analyze the potential advantages and disadvantages of real estate compared to equity investments in India.**

**Ans 4.**

**Advantages and Disadvantages of Real Estate Compared to Equity Investments in India**

**Introduction**  
Investing in real estate and equity represents two popular investment avenues in India, each with unique characteristics, benefits, and risks. While real estate refers to the purchase of physical property for income or capital appreciation, equity investments involve buying shares of companies traded on stock exchanges. Comparing these two options requires

**5. Elucidate the meaning of Derivatives. Also, analyze the benefits and risks associated with investment in derivatives.**

**Ans 5.**

**Meaning of Derivatives and Their Benefits and Risks**

**Understanding Derivatives**

Derivatives are financial instruments whose value is derived from an underlying asset, index, or reference rate. The underlying asset can include stocks, bonds, commodities, currencies, interest rates, or market indices. Derivatives are contractual agreements between two or more parties, and they are typically traded in both organized exchanges and over-the-counter (OTC) markets. Common types of derivatives include futures, options, forwards, and swaps.

The primary purpose of derivatives is to manage financial risks, speculate on price movements, or gain exposure to specific asset classes. By leveraging derivatives, investors

potential pitfalls and maximize their utility in financial markets.

**6. Elaborate on the chief constituents of Mutual Funds in India.**

**Ans 6.**

**Chief Constituents of Mutual Funds in India**

A mutual fund is a collective investment vehicle that pools money from multiple investors to invest in a diversified portfolio of assets, such as equities, bonds, money market instruments, or a combination of these. Managed by professional fund managers, mutual funds are structured to achieve specific investment objectives, ranging from capital appreciation to income generation. In India, mutual funds have gained immense popularity due to their