

- OR iii. Explain the valuation process of shares and bonds, focusing on the sources of risk involved. **6** 2 3 4
- Q.6 Attempt any two:
- i. Define portfolio management and explain its importance in investment strategy. **5** 2 3 5
- ii. Describe the portfolio management process and the key steps involved. **5** 2 3 5
- iii. Discuss the objectives of portfolio management and how they influence security selection. **5** 2 3 5

Total No. of Questions: 6

Total No. of Printed Pages: 4

Enrollment No.....



Faculty of Commerce
End Sem Examination Dec 2024
CM3EB01 Fundamentals of Investment

Programme: B.Com. (Hons.) Branch/Specialisation: Commerce

Duration: 3 Hrs.

Maximum Marks: 60

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d. Assume suitable data if necessary. Notations and symbols have their usual meaning.

- | | | Marks | BL | PO | CO | PSO |
|--------|---|-------|----|----|----|-----|
| Q.1 i. | Which of the following best describes an investment? | 1 | 1 | 3 | 1 | |
| | (a) A short-term speculation on market trends | | | | | |
| | (b) A long-term commitment of resources with an expectation of returns | | | | | |
| | (c) A gamble on future events | | | | | |
| | (d) None of these | | | | | |
| ii. | What is a primary objective of an investor? | 1 | 1 | 3 | 1 | |
| | (a) To avoid any risks associated with market fluctuations | | | | | |
| | (b) To maximize returns while minimizing risks | | | | | |
| | (c) To invest only in government bonds | | | | | |
| | (d) To speculate on stock prices daily | | | | | |
| iii. | What is the primary role of SEBI in the Indian financial markets? | 1 | 1 | 3 | 2 | |
| | (a) To act as a stock broker | | | | | |
| | (b) To regulate and promote the orderly functioning of securities markets | | | | | |
| | (c) To provide loans to investors | | | | | |
| | (d) To manage mutual funds | | | | | |

[2]

- iv. Which of the following is a key guideline for investor protection? **1** 1 3 2
- (a) Allowing insider trading
- (b) Ensuring full disclosure of material information
- (c) Limiting investor participation in stock markets
- (d) Restricting foreign investment
- v. What is a key characteristic of an open-ended mutual fund? **1** 1 3 3
- (a) It has a fixed number of shares available for trading
- (b) Investors can redeem shares at any time based on the NAV
- (c) It invests exclusively in government securities
- (d) It is listed on stock exchanges only
- vi. Which of the following participants is primarily responsible for executing buy and sell orders in the securities market? **1** 1 3 3
- (a) Investors (b) Regulators
- (c) Brokers (d) Investment companies
- vii. What type of risk can be eliminated through diversification? **1** 1 3 4
- (a) Systematic risk (b) Unsystematic risk
- (c) Market risk (d) Interest rate risk
- viii. Which measure reflects the sensitivity of a bond's price to changes in interest rates? **1** 1 3 4
- (a) Current yield (b) Yield to maturity
- (c) Duration (d) Coupon rate
- ix. What is the primary objective of portfolio management? **1** 1 3 5
- (a) To select only high-risk investments
- (b) To balance risk and return based on investor goals
- (c) To invest in a single asset class
- (d) To minimize all forms of investment risk

[3]

- x. Which of the following is a step in the portfolio management process? **1** 1 3 5
- (a) Ignoring market trends
- (b) Selecting securities based on random choice
- (c) Establishing investment objectives
- (d) Investing only in popular stocks
- Q.2 i. Discuss the key differences between investment, speculation, and gambling. **2** 2 3 1
- ii. Explain the objectives of investors and how they influence the investment decision process. **3** 2 10 1
- iii. Analyse the impact of taxes and inflation on investment decisions. **5** 3 3 1
- OR iv. Describe the various types of investment avenues available in the market. **5** 2 3 1
- Q.3 i. What are the key guidelines established for investor protection in India? **2** 2 3 2
- ii. Explain the role of SEBI in protecting investors and maintaining market integrity. **8** 2 3 2
- OR iii. Discuss the investor grievances and redressal system in India. **8** 3 3 2
- Q.4 i. Identify the major participants in the Indian securities market and their roles. **3** 3 3 3
- ii. Describe the concepts of open-ended and closed-ended investment companies, highlighting their differences. **7** 3 9 3
- OR iii. Explain the significance of security market indices and how they are calculated. **7** 3 3 3
- Q.5 i. Differentiate between systematic and unsystematic risk with examples. **4** 4 3 4
- ii. Discuss the various methods used to measure risk and return in fixed-income securities. **6** 2 10 4

Marking Scheme

CM3EB01 Fundamentals of Investment

Q 1

Unit I: Introduction to Investment

1. Which of the following best describes an investment?

- A) A short-term speculation on market trends
- B) A long-term commitment of resources with an expectation of returns
- C) A gamble on future events
- D) None of the above

Answer: B) A long-term commitment of resources with an expectation of returns

2. What is a primary objective of an investor?

- A) To avoid any risks associated with market fluctuations
- B) To maximize returns while minimizing risks
- C) To invest only in government bonds
- D) To speculate on stock prices daily

Answer: B) To maximize returns while minimizing risks

Unit II: Investors Protection Guidelines

1. What is the primary role of SEBI in the Indian financial markets?

- A) To act as a stock broker
- B) To regulate and promote the orderly functioning of securities markets
- C) To provide loans to investors
- D) To manage mutual funds

Answer: B) To regulate and promote the orderly functioning of securities markets

2. Which of the following is a key guideline for investor protection?

- A) Allowing insider trading
- B) Ensuring full disclosure of material information
- C) Limiting investor participation in stock markets
- D) Restricting foreign investment

Answer: B) Ensuring full disclosure of material information

Unit III: The Indian Securities Market

1. What is a key characteristic of an open-ended mutual fund?

- A) It has a fixed number of shares available for trading
- B) Investors can redeem shares at any time based on the NAV
- C) It invests exclusively in government securities

D) It is listed on stock exchanges only

Answer: B) Investors can redeem shares at any time based on the NAV

2. Which of the following participants is primarily responsible for executing buy and sell orders in the securities market?

- A) Investors
- B) Regulators
- C) Brokers
- D) Investment companies

Answer: C) Brokers

Unit IV: Security Risk & Return

1. What type of risk can be eliminated through diversification?

- A) Systematic risk
- B) Unsystematic risk
- C) Market risk
- D) Interest rate risk

Answer: B) Unsystematic risk

2. Which measure reflects the sensitivity of a bond's price to changes in interest rates?

- A) Current yield
- B) Yield to maturity
- C) Duration
- D) Coupon rate

Answer: C) Duration

Unit V: Portfolio Management

1. What is the primary objective of portfolio management?

- A) To select only high-risk investments
- B) To balance risk and return based on investor goals
- C) To invest in a single asset class
- D) To minimize all forms of investment risk

Answer: B) To balance risk and return based on investor goals

2. Which of the following is a step in the portfolio management process?

- A) Ignoring market trends
- B) Selecting securities based on random choice
- C) Establishing investment objectives
- D) Investing only in popular stocks

Answer: C) Establishing investment objectives

Q.2

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- i. Discuss the key differences between investment, speculation, and gambling. (2)
 - ii. Explain the objectives of investors and how they influence the investment decision process. (3)
 - iii. Analyze the impact of taxes and inflation on investment decisions. (5)
- OR
- iv. Describe the various types of investment avenues available in the market. (5)

Q.3

- i. What are the key guidelines established for investor protection in India? (2)
 - ii. Explain the role of SEBI in protecting investors and maintaining market integrity. (8)
- OR
- iii. Discuss the investor grievances and redressal system in India. (8)

Q.4

- i. Identify the major participants in the Indian securities market and their roles. (3)
 - ii. Describe the concepts of open-ended and closed-ended investment companies, highlighting their differences. (7)
- OR
- iii. Explain the significance of security market indices and how they are calculated. (7)

Q.5

- i. Differentiate between systematic and unsystematic risk with examples. (4)
 - ii. Discuss the various methods used to measure risk and return in fixed-income securities. (6)
- OR
- iii. Explain the valuation process of shares and bonds, focusing on the sources of risk involved. (6)

Q.6 Attempt any two:

- i. Define portfolio management and explain its importance in investment strategy. (5)
- ii. Describe the portfolio management process and the key steps involved. (5)
- iii. Discuss the objectives of portfolio management and how they influence security selection. (5)

Q.2

- i. **Differences between investment, speculation, and gambling:**
 - **Investment** involves the allocation of resources (usually money) with the expectation of generating returns over time, typically associated with careful analysis and long-term planning.

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- **Speculation** involves taking on riskier financial positions in hopes of achieving higher returns, often based on market trends or predictions, rather than fundamental analysis.
- **Gambling** is a game of chance where the outcome is uncertain and largely dependent on luck, with no inherent expectation of profit based on analysis.

- ii. **Objectives of investors and their influence on the investment decision process:**
 - Objectives can include capital appreciation, income generation, tax savings, or wealth preservation.
 - These objectives influence the choice of investment instruments, risk tolerance, time horizon, and diversification strategies, as investors align their portfolios with their goals.

- iii. **Impact of taxes and inflation on investment decisions:**
 - **Taxes** can erode returns, affecting the attractiveness of certain investments. For instance, capital gains taxes may lead investors to favor tax-deferred accounts or tax-efficient investments.
 - **Inflation** decreases the purchasing power of returns. Investors may seek assets that historically outpace inflation, such as equities or real estate, to maintain their wealth over time.

OR

- iv. **Types of investment avenues available in the market:**
 - **Equities:** Shares of companies, offering ownership and potential for capital gains.
 - **Fixed-Income Securities:** Bonds and debentures that provide regular interest income.
 - **Mutual Funds:** Pooled investment vehicles that invest in a diversified portfolio.
 - **Real Estate:** Physical property investment, offering capital appreciation and rental income.
 - **Commodities:** Physical goods like gold or oil, serving as a hedge against inflation.

Q.3

- i. **Key guidelines for investor protection in India:**
 - SEBI (Securities and Exchange Board of India) regulates the securities market, promoting transparency, fairness, and accountability. Guidelines include ensuring adequate disclosures, educating investors, and preventing fraud.

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ii. **Role of SEBI in protecting investors:**

- SEBI regulates market intermediaries, enforces securities laws, and ensures that companies provide accurate information. It also facilitates investor education programs and handles complaints through an efficient grievance redressal system.

OR

iii. **Investor grievances and redressal system in India:**

- Investors can file complaints with SEBI or through stock exchanges. SEBI has set up an online platform for complaint registration and ensures timely resolution. This enhances investor confidence and promotes market integrity.

Q.4

i. **Major participants in the Indian securities market:**

- **Investors:** Retail and institutional investors who buy and sell securities.
- **Stock Exchanges:** Platforms for trading securities (e.g., BSE, NSE).
- **Brokers:** Intermediaries facilitating transactions between buyers and sellers.
- **Regulators:** Bodies like SEBI overseeing the market operations.
- **Clearing Houses:** Ensure settlement of trades and manage counterparty risk.

ii. **Open-ended and closed-ended investment companies:**

- **Open-ended Investment Companies:** Issue and redeem shares at the net asset value (NAV), allowing for flexible investment and withdrawal.
- **Closed-ended Investment Companies:** Issue a fixed number of shares that are traded on the stock exchange; share prices may differ from NAV based on market demand.

OR

iii. **Significance of security market indices:**

- Indices like the Sensex or Nifty track the performance of a specific group of securities, providing benchmarks for performance evaluation. They reflect overall market trends and investor sentiment and are calculated based on market capitalization or price.

Q.5

[4]

i. **Systematic and unsystematic risk:**

- **Systematic Risk:** Market-wide risks that cannot be eliminated through diversification (e.g., economic downturns, interest rate changes).
- **Unsystematic Risk:** Risks specific to a company or industry that can be reduced through diversification (e.g., management decisions, industry competition).

ii. **Methods to measure risk and return in fixed-income securities:**

- **Yield to Maturity (YTM):** Total return anticipated on a bond if held until maturity.
- **Duration:** Measures sensitivity of bond prices to interest rate changes.
- **Standard Deviation:** Indicates the volatility of returns.

OR

iii. **Valuation process of shares and bonds:**

- **Shares:** Valuation involves discounted cash flow (DCF) analysis, price-to-earnings (P/E) ratios, and comparative analysis.
- **Bonds:** Valuation considers present value of future cash flows (coupon payments and principal), adjusted for interest rate risk.

Q.6

i. **Definition and importance of portfolio management:**

- Portfolio management is the art and science of making decisions about investment mix and policy, matching investments to objectives, while balancing risk and return. It's crucial for achieving financial goals efficiently.

ii. **Portfolio management process:**

- **Step 1:** Establish investment objectives based on risk tolerance, time horizon, and financial goals.
- **Step 2:** Develop a strategic asset allocation to diversify across asset classes.
- **Step 3:** Select specific securities for the portfolio based on analysis.
- **Step 4:** Monitor and rebalance the portfolio regularly to align with changing market conditions and objectives.

iii. **Objectives of portfolio management:**

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- Objectives include maximizing returns, minimizing risks, ensuring liquidity, and achieving capital preservation. These objectives influence how securities are selected and the overall strategy of the portfolio.

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