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Register Number:

DATE:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**BPS – V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2021**

**(Examination conducted in January – March 2022)**

**BPS 5618: Capital Markets for Business Process Services**

Time- 2 ½ hrs Max Marks-70

**This paper contains 2 printed pages and four parts**

**Section A**

**I.** Answer ***any five*** of the following (**2 x 5 = 10 marks)**

1. List the formula to calculate NAV.
2. State any two functions of capital market.
3. List any two investment banking companies who acted as the advisory for recent M&A deals.
4. Which are the two types of option contracts?
5. What is meant by stock split?
6. What is meant by fixed income securities?

**Section B**

**II.** Answer ***any three*** of the following (**5 x 3 = 15 marks)**

1. Discuss the functions of Investment Banking.
2. Briefly explain the phases of trade life cycle in stock exchange.
3. Compare and contrast between a private equity fund and a hedge fund.
4. What is meant by derivatives? Explain the different types of derivatives contracts.

**Section C**

**III.** Answer ***any two*** of the following (**15 x 2 = 30 marks)**

1. What is Mutual Fund? Elucidate the different types of mutual fund schemes.
2. “Share price usually declines in line with the level of dividend paid per share.” Discuss how the various types of corporate actions affect the securities price.
3. Elucidate the different forms of Bonds available in the capital market.

**Section D**

**IV. Answer the following (15marks)**

1. Financial market participants often describe movements in asset prices to changes in investor risk appetite. Intuitively, changes in risk appetite should affect the macroeconomy. When investors have a greater appetite for risk, they should find safe bonds less attractive and be more willing to fund risky projects. Thus, real interest rates should be high and investment should boom, spurring an economic expansion. Conversely, when risk appetite is low, investors should seek out safe bonds as they become less willing to fund risky investments, driving down the real rate and leading to an economic contraction.

When it comes to risk, here’s a reality check: All investments carry some degree of risk. Stocks, bonds, mutual funds and exchange-traded funds can lose value, even all their value, if market conditions sour. Even conservative, insured investments, such as certificates of deposit (CDs) issued by a bank or credit union, come with inflation risk. They may not earn enough over time to keep pace with the increasing cost of living.

When we invest, we make choices about what to do with our financial assets. Risk is any uncertainty with respect to your investments that has the potential to negatively affect your financial welfare. The level of risk associated with a particular investment or asset class typically correlates with the level of return the investment might achieve. The rationale behind this relationship is that investors willing to take on risky investments and potentially lose money should be rewarded for their risk.

Although stocks have historically provided a higher return than bonds and cash investments (albeit, at a higher level of risk), it is not always the case that stocks outperform bonds or that bonds are lower risk than stocks. Both stocks and bonds involve risk, and their returns and risk levels can vary depending on the prevailing market and economic conditions and the manner in which they are used. So, even though target-date funds are generally designed to become more conservative as the target date approaches, investment risk exists throughout the lifespan of the fund.

Time Can Be our Friend or Foe - Based on historical data, holding a broad portfolio of stocks over an extended period of time (for instance a large-cap portfolio like the S&P 500 over a 20-year period) significantly reduces our chances of losing our principal. However, the historical data should not mislead investors into thinking that there is no risk in investing in stocks over a long period of time. You cannot eliminate investment risk. But two basic investment strategies can help manage both systemic risk and non-systemic risk.

*The bottom line is all investments carry some degree of risk. By better understanding of the nature of risk, and taking steps to manage those risks, it could be in a better position to meet the financial goals.*

**Questions**

1. **State the meaning of risk from the above case (2 marks)**
2. **What is meant by systematic and unsystematic risk? (2 marks)**
3. **Give a short note on the other types of risk seen in the market. (5 marks)**
4. **Elucidate on various steps taken by an investor in managing the risk.**

 **(6 marks)**

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