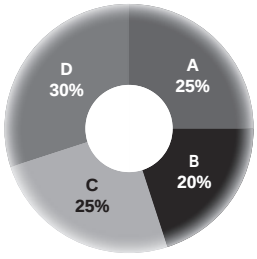
Syllabus- 2016

Syllabus Structure

A	Investment Decisions	25%
B	Financial Markets and Institutions	20%
C	Security Analysis and Portfolio Management	25%
D	Financial Risk Management	30%



ASSESSMENT STRATEGY

There will be written examination paper of three hours.

OBJECTIVES

To provide expert knowledge on setting financial objectives and goals, managing financial resources, financial risk management, thorough understanding of investment portfolios and financial instruments.

Learning Aims

The syllabus aims to test the student's ability to :

- Evaluate the role of agents and instruments in financial markets
- Interpret the relevance of financial institutions
- Analyze the degree of risk for its effective management
- Advise on investment opportunities

Skill set required

Level C: Requiring skill levels of knowledge, comprehension, application, analysis, synthesis and evaluation.

Section A : Investment Decisions	**25%**
1. Investment Decisions, Project Planning and Control	
2. Evaluation of Risky Proposals for Investment Decisions	
3. Leasing Decisions	
Section B : Financial Markets and Institutions	**20%**
4. Institutions in Financial Markets	
5. Instruments in Financial Markets	
6. Capital Markets	
7. Commodity Exchange	
Section C : Security Analysis and Portfolio Management	**25%**
8. Security Analysis & Portfolio Management	
Section D : Financial Risk Management	**30%**
9. Financial Risks & Management	
10. Financial Derivatives – Instruments for Risk Management	
11. Financial Risk Management in International Operations	

SECTION A: INVESTMENT DECISIONS **[25 MARKS]**

1. Investment Decisions, Project Planning and Control

(i) Estimation of project cash flow

(ii) Relevant cost analysis for projects

(iii) Project appraisal Methods – DCF and Non-DCF Techniques

(iv) Capital Rationing

(v) Social Cost Benefit analysis

2. Evaluation of Risky Proposals for Investment decisions

(i) Investment decisions under uncertainties

(ii) Effect of Inflation on Capital Budgeting Decisions

(iii) Sensitivity Analysis, Certainty Equivalent Approach, Decision Tree Analysis, Standard Deviation in Capital Budgeting, Risk Adjusted Discount Rate, Options in Capital Budgeting

3. Leasing Decisions

(i) Lease Financing – Evaluation of Lease vs Buy options

(ii) Break-Even Lease rental determination

(iii) Cross Boarder Leasing, Sale and Lease back

SECTION B: FINANCIAL MARKETS AND INSTITUTIONS **[20 MARKS]**

4. Institutions in Financial Markets

(i) Reserve Bank of India, Commercial Banks, NBFCs

(ii) Insurance Companies, Pensions Funds.

5. Instruments in Financial Market

(i) Money Market Instruments - Call money, Treasury Bills, Commercial Bills, Commercial Paper, Certificate of Deposits, Repo, Reverse Repo and Promissory Notes, Government Securities, Bonds, Valuation of Bonds, Price Yield Relationship.

(ii) Hedge Funds

(iii) Mutual Funds – Computation of NAV and Evaluation of Mutual fund's Performance

6. Capital Markets

(i) Primary and secondary markets and its instruments

(ii) Optionally convertible debentures, Deep discount bonds

(iii) Rolling settlement, Clearing house operations

(iv) Dematerialization, Re-materialization and Depository system

(v) Initial Public Offering (IPO) / Follow on Public Offer (FPO) ; Book Building

(vi) Insider trading

(vii) Credit rating - Credit rating agencies in India

7. Commodity Exchange

(i) Regulatory Structure, Design of markets

(ii) Issues in Agricultural, Non-Agricultural Markets, Product design, Spot price and present practices of commodities exchanges

(iii) Intermediaries in the commodity exchanges & Clearing house operations, risk management related issues

(iv) Commodity Options on futures and its mechanism

SECTION C: SECURITY ANALYSIS & PORTFOLIO MANAGEMENT **[25 MARKS]**

8. Security Analysis & Portfolio Management including Equity Research

(i) Security analysis- Fundamental analysis- Economic analysis, Industry analysis, Company analysis, Technical analysis, Momentum analysis - arguments and criticisms

(ii) Market indicators, Support and resistance level, Patterns in stock price

(iii) Statistic models – Moving Averages, Bollinger bands

(iv) Theories on stock market movements – Dow Jones Theory

(v) Portfolio Management – meaning, objectives and basic principles

(vi) Portfolio Management theories – Efficient Market Hypothesis, Markowitz Model, Random Walk theory, CAPM, APT, Sharpe Index.

(vii) Portfolio Management – Construction of a Portfolio, Computing the Portfolio Total risk, Classification of risk into systematic and unsystematic, Minimization of Portfolio risk, Monitoring the Risk and Return of a portfolio

(viii) Portfolio Analysis - Security and Capital Market Line, Beta, Levered and Unlevered Beta

SECTION D: FINANCIAL RISK MANAGEMENT **[30 MARKS]**

9. Financial Risks

(i) Credit Risk, Liquidity Risk, Asset based risk, Operational Risk

(ii) Foreign investment risk, Market Risk

10. Financial Derivatives - Instruments for Risk Managment

(i) Forward & Futures – Meaning and Difference between Forwards and Future, Stock futures, Hedging through futures and benefits of Future market, Components of Future Price, Index based Futures, Margins in the derivatives market

(ii) Options – Meaning, types of Options (Call & Put), Put-Call Parity theory, Determination of Option Premium, Strategies in Options market – spread, bull spread, bear spread, butterfly spread, combination, straddle, Strangle, Strips and Straps, Valuation of Options using-Option Equivalent, Stock Equivalent, Binomial tree approach, Risk neutral and Black-Scholes Model

(iii) Swaps and Swaptions – Meaning, types, features, benefits of Swaps, Interest rate swaps,

(iv) Interest rate derivatives – Meaning, Interest rate caps, interest rate collars, forward rate agreements

11. Financial Risk Management in International Operations

(i) Sources of Foreign currency, debt route, depository receipts, American Depository Receipts (ADRs) – sponsored, unsponsored, Global Depository Receipts (GDRs), Warrants, Foreign Currency Convertible Bonds (FCCBs), Euro Issues, Euro Commercial Paper, Euro Convertible Bonds, Note Issuance Facility, Participating Notes, Foreign Direct Investment

(ii) Foreign Exchange Market – Exchange Rate determination – Exchange Rate Forecasting-Purchasing Power Parity-Interest Rate Parity

(iii) Exchange Rate Risk management – Forex Hedging tools, exposure netting, currency forward, cross currency roll over, Currency futures, options, money market hedge, asset-liability management

(iv) Foreign Investment Analysis: International Portfolio Investment – International Capital Budgeting.

Contents

SECTION A – INVESTMENT DECISIONS

Study Note 1 : Investment Decisions, Project Planning and Control

1.1	Estimation of Project Cash Flow	2
1.2	Relevant Cost Analysis for Projects	5
1.3	Project Appraisal Methods – DCF and Non-DCF Techniques	6
1.4	Capital Rationing	19
1.5	Social Cost Benefit Analysis (SCBA)	20

Study Note 2 : Evaluation of Risky Proposals for Investment Decisions

2.1	Investment Decisions under uncertainties	41
2.2	Effect of Inflation on Capital Budgeting Decisions	50
2.3	Sensitivity Analysis, Certainty Equivalent Approach, Decision Tree Analysis, Standard Deviation in Capital Budgeting, Risk Adjusted Discount Rate, Options in Capital Budgeting	52

Study Note 3 : Leasing Decisions

3.1	Lease Financing – Evaluation of Lease vs. Buy Options	71
3.2	Break-Even Lease Rentals	73
3.3	Cross Border Leasing	73

SECTION B: FINANCIAL MARKETS AND INSTITUTIONS

Study Note 4 : Institutions in Finance Markets

4.1	Financial System	85
4.2	Reserve Bank of India	89
4.3	Banking Institutions – Commercial Banks	99
4.4	Non-Banking Financial Company (NBFC)	102
4.5	Insurance Companies	105
4.6	Pensions Funds	106

Study Note 5 : Instruments in Financial Markets

5.1	Financial Market	109
5.2	Money Market	110
5.3	Money Market Instruments	113

5.4	Repo and Reverse Repo	127
5.5	Promissory Notes	129
5.6	Government Securities and Bonds	129
5.7	Bonds, Valuation of Bonds, Price Yield Relationship	135
5.8	Hedge Funds	138
5.9	Mutual Funds	141

Study Note 6 : Capital Markets

6.1	Capital Market	187
6.2	Primary and Seconday Markets and its Instruments	188
6.3	Optionally Convertible Debentures and Deep Discount Bonds	193
6.4	Rolling Settlement, Clearing House Operations	194
6.5	Dematerialisation, Rematerialisation	195
6.6	Depository System	197
6.7	Intial Public Offer (IPO)/Follow on Public Offer (FPO); Book Building	199
6.8	Auction & Insider Trading	206
6.9	Credit Rating – Objectives, Sources, Process, Credit Rating Agencies in India	208

Study Note 7 : Commodity Exchange

7.1	Commodity Exchange	211
7.2	Commodity Exchange in India	214
7.3	Indian Commodity Market-Regulatory Framework	221
7.4	Unresolved Issues and Future Prospects	226
7.5	Intruments available for Trading	228
7.6	Participants of Commodity Market	230
7.7	How the Commodity Market Works	231
7.8	Clearing House Operations	232
7.9	Risk Management	236
7.10	Commodity Futures and Its Mechanism	237
7.11	Commonly Used Terms in Commodity Market	248

SECTION C: SECURITY ANALYSIS & PORTFOLIO MANAGEMENT

Study Note 8 : Security Analysis and Portfolio Management

8.1	Investment – Basics and Analysis of Securities	253
8.2	Market Indicators, Support and Resistance Level, Patterns in Stock Price	269
8.3	Statistic Models, Bollinger Bands	273
8.4	Theories on Stock Market Movements	275
8.5	Portfolio Management	276
8.6	Markowitz Model of Risk-Return Optimization	278
8.7	Portfolio Management - Return and Risk Analysis	279
8.8	Capital Asset Pricing Model (CAPM) and its Assumptions	287
8.9	Arbitrage Pricing Model (APT)	291

SECTION D: FINANCIAL RISK MANAGEMENT

Study Note 9 : Financial Risks

9.1	Concept of Risk and Risk Management	333
9.2	Operational Risk	334
9.3	Financial Risk – Meaning and Nature	335
9.4	Financial Risk Identification based on the Balance Sheet Information	340

Study Note 10 : Financial Derivatives-Instruments for Risk Management

10.1	Forward & Futures	343
10.2	Options	394
10.3	Swaps and Swaptions	447
10.4	Interest Rate Derivatives	459

Study Note 11 : Financial Risk Management in International Operations

11.1	Foreign Exchange Market	475
11.2	Foreign Exchange Rate Management	478
11.3	Parity Conditions in International Finance	484
11.4	Exchange Rate Risk Management	492
11.5	Foreign Investment Analysis	503
11.6	Sources of Foreign Currency	515
11.7	Foreign Investment in India	526