SNS COLLEGE OF TECHNOLOGY

Coimbatore – 35

Department of Management Studies

Staff In-Charge : Ms.Swarnam S

Course : 23BAE707 – Investment Analysis and Portfolio Management

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2 Mark Questions and Answers

Unit III : **Fundamental Analysis**
Prepared by : Ms.Swarnam S, AP / MBA

1. **Define economic analysis.**
   The analysis of the state of the economy at the macro level incorporates the performance of the economy in the past.

2. **What are the factors of macro analysis?**
   The analysis of the following factors indicates the trends in macro-economic changes that affect the risk and return on investments.
   - *Money supply*
   - *Industrial production*
   - *Capacity utilization*
   - *Unemployment*
   - *Inflation*
   - *Growth in GDP*

3. **What is fiscal policy?**
   Fiscal policy is concerned with the spending and tax initiatives of the government. It is the most direct tool to stimulate or dampen the economy.

4. **List the recent techniques in the industry analysis**
   - *End use and regression analysis*
   - *Input-output analysis*

5. **Explain the pioneering stage of industry analysis.**

   This the first stage in industrial life cycle of a new industry. In this technology and its products are relatively new and have not reached a stage of perfection.

6. **Define defensive industry**

   It is a grouping firm, which moves steadily with the economy and less than the average decline of the economy in a cyclical downturn.

7. **Define the anticipatory surveys.**

   This is simple method through which investors can form their opinion/expectation with respect to the future state of the economy.

8. **What are the different factors of industry analysis?**

   The securities analyst will take into consideration the following factors into account in assessing the industry potential in making investments
   - *Post – sales and earnings performance*
   - *The government's attitude towards industry*
   - *Labour conditions.*

9. **What are the importances of industry analysis?**
   - *Firms in each different industry typically experience similar levels of risk and similar rates of return. As such, industry analysis can also be useful in knowing the investment –worthiness of a firm.*
   - *Mediocre stocks in a growth industry usually outperform the best stocks in a stagnant industry. This is point out the need for knowing not only company prospects but also industry prospects.*

10. **What are the economic forecasting techniques?**
    - *Barometric or Indicator Approach*
    - *Anticipatory Surveys*
    - *Diffusion Index*
    - *Econometric model building*
    - *Opportunistic model building*

11. **What is the cyclical industry?**
    - *Growth and profitability of the industry move along with the business cycle.*
    - *During boom – enjoys growth*
    - *During depression – Suffer a set back*

    Eg: White goods – fridge, washing machine

12. **List the different types of industries.**

Classification of Industries: (On the basis of Business cycle)
- *Growth Industry*
- *Cyclical Industry*
- *Defensive Industry*

Classification of Industries: (On the basis of products)
- *Cement Industry*
- *Steel Industry*
- *Textile Industry, etc..*

13. **Define company analysis.**
- *In company analysis, the future earnings of the company is forecasted, as earnings have direct and powerful effect upon share prices.*
- *Investor assimilates several bits of information related to the company and evaluates the present and future values of the stock.*
- *Risk and return associated with the stock is analyzed for better investment decisions.*

14. **What are the components of company analysis?**
1. *Financial analysis*
2. *Non – financial analysis.*

15. **What are the methods of forecasting earnings?**

Earlier Methods
- *Earnings methods*
- *Market share/profit margin approach*

Modern techniques
- *Regression and correlation analysis*
- *Trend analysis*
- *Decision trees*
- *Simulation*

16. **What do you understand by asset value of a security?**

The asset value of a security is determined by estimating the liquidating value of the firm, deducting the claims of firm's creditors and allocating the remaining net asset value of the firm over the outstanding shares of stock.

17. **What do you understand by dividend discount method?**

Dividend discount method is based on the premise that the value of an investment is the present value, its future returns.

18. **Define price earning approach.**

According to this method, the future price of an equity share is calculated by multiplying the   P/E ratio by the price.

- o *P = EPS x P/E ratio*
- o *Higher the P/E ratio, higher would be the value of an equity share.*
- o *Lower the P/E ratio, lower would be the value of an equity share*

19. **What are the inferences of the dividend discount model?**

- ➢ *Higher the EPS , other things remaining same, higher would be the value of the share*
- ➢ *Higher the b , g remaining same, higher would be the value of share*
- ➢ *Higher the k. i.e discount rate , other things remaining same, higher would be the value of the share*
- ➢ *Higher the growth rate, other things like EPS, b and k remaining constant, higher would be the value of share.*

20. **What is mean by trend analysis?**

Trend analysis is a time series analysis that permits identification of seasonal, cyclical and erratic fluctuations of the variables under consideration over a period. Analysts employ trends analysed by plotting the data on a special kind of graph paper, semi- logarithmic or semi- log paper, in order to reveal starkly different growth rates.