**Capital Market and Portfolio Management**

**September 2022 Examination**

**Q1. Efficient market hypothesis repudiates the technical analysis by arguing that no abnormal returns can be earned by using three different forms of information. In the light of this statement, discuss the three forms of EMH, and comment on their validity in the stock markets in contemporary periods. (10 Marks)**

**Ans 1.**

**Introduction**

The Efficient Market Hypothesis (EMH) fundamentally asserts that the prices of investment securities, such as stocks, already take into account all available information regarding those securities. If so, no amount of study will be able to provide you an advantage over "the market." Investors need not be logical; according to EMH, each investor will behave arbitrarily. However, the market is always "correct" overall. Simply put, the word "efficient" implies the word "normal. For instance, a strange response to a strange piece of information is typical. It's typical for you to follow the herd if they suddenly begin moving in that direction,

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**Q2. From the following information about two portfolios, explain which one offers a better investment option based on the Sharpe ratio. (10 Marks)**

|  |  |  |
| --- | --- | --- |
|  | **Portfolio X** | **Portfolio Y** |
| **Annual Return (Rp)** | **7.6%** | **8.9%** |
| **Risk-free Return (Rf)** | **5%** | **5%** |
| **Standard deviation of portfolio’s return (ơp)** | **0.12** | **0.23** |

**Ans 2.**

**Introduction**

William F. Sharpe, winner of the Nobel Prize in economics, is credited with developing the Sharpe ratio, which is a tool utilized by investors to better comprehend the return of an investment in comparison to the risk involved. The ratio is the average return earned over and above the risk-free rate, expressed as a percentage of the total risk or volatility taken on. A measure of the price swings of an asset or portfolio is referred to as its volatility. The Sharpe ratio corrects the historical performance of a portfolio, or its predicted future performance, for

**Q3. On seeing the report of Company, A, we found that the “EVA rises 224% to Rs.71 Crore” whereas Company B’s “EVA rises 50% to 548 crore”**

**a. Define EVA, and discuss its significance. (5 Marks)**

**Ans 3a.**

**Introduction**

The incremental difference between a company's rate of return (RoR) and its cost of capital is called EVA. It basically serves as a gauge for the value that investments in a firm produce. A negative EVA indicates that a company is not making money from the capital put in the enterprise. A corporation is demonstrating value from the money invested in it if its EVA is

**b. Comparatively analyze EVA in relation with measures like EPS or ROE? Is EVA suitable in Indian Context? (5 Marks)**

**Ans 3b.**

**Introduction**

According to Laing (2015), comparing the coefficients of determination (R2) reveals that the EPS is significantly related whereas the ROE is not. More crucially, the EVA coefficient is not significant, hence the null hypothesis cannot be rejected, but rather upheld. That is, EVA's

behavioral finance: A review of rationality to irrationality. Materials Today: Proceedings.