

Investment Analysis and Portfolio Management

Program/ Semester: MBA/ Fourth Semester

Course Title: Investment Analysis and Portfolio Management

Course Code: FIN 644

Credit Hours: 3

Contact Hours: 45

Nature: Concentration (Banking and Finance)

Course Description

This course creates a sound background for investing in securities. It does so by providing basic knowledge of the investment environment, investment alternatives, and the markets for securities. It lays the foundation for investing by dealing with the portfolio theory and assets pricing models. The course also covers the valuation of securities and analysis of the economy, industry and company. Each unit of the course will deal with relevant examples drawn from domestic as well as international markets. These inputs provide students with an understanding of the concept and principles of investment and portfolio management together with the analytical ability required for investment decision making.

Course Objectives

The objective of this course is to provide the students with knowledge of principles and theories of investment and develop analytical skills for appraisal of securities for investment. It enables students to analyze markets and securities for optimal allocation of investible funds.

Learning Outcomes

On completion of the course, students are expected to be able to:

- scan the investment environment
- understand how securities are traded and securities markets operate
- form optimal portfolios of risky and risk-free assets
- understand assets pricing models and apply them to predict assets prices
- analyse bonds and stocks for investing
- analyse the economy and the industry for investment
- analyse the financial statements of the company

Course Details

Unit 1: The Investment Environment

LH 4

Types of investment; investment process; financial markets and the economy; recent trends in investment; ethical issues in investing; and investment environment in Nepal.

Unit 2: Financial Market and Trading of Securities

LH 7

Market and Instruments: the money market and capital market; equities securities; Stock and bond market indexes; Issue and trading of securities; Markets for trading securities—trading on exchanges, trading on the OTC market; Trading costs; Buying on margin; Short sales; Regulation of securities markets; Recent developments of securities transactions in Nepal: online and automation, cost of trading, taxes on capital gains and dividends.

Unit 3: Portfolio Management

LH 7

Recap of portfolio return and risk; Risk and risk aversion; Capital allocation across risky and risk-free portfolios; Portfolios of one risky and a risk-free asset; Capital market line; Portfolio of two risky assets; Optimal risky portfolios; Diversification and portfolio risk; Markowitz portfolio selection model.

Unit 4: Assets Pricing Models and Market Efficiency

LH 7

The Capital Assets Pricing Model (CAPM): concept and assumptions of CAPM; Risk premium of the market portfolio; Expected return on individual securities; Securities market line; CAPM and the investment industry; Arbitrage Pricing Theory (APT): single factor and multifactor models; Arbitrage and the CAPM; Market Efficiency: random walk and the efficient market hypothesis; implications of the efficient market hypothesis for investment policy and event studies.

Unit 5: Macroeconomic, Industry and Company Analysis

LH 6

The global economy, the domestic macro-economy, demand and supply shocks, government policy, business cycles and industry analysis; Company analysis: major financial statements, measuring firm performance, profitability measures, ratio analysis, economic value added, comparability problems; Value investing: the Graham technique.

Unit 6: Bond Pricing and Equity Valuation

LH 10

Interest rate as a determinant of the price of financial securities; Term structure of interest rates; Measuring the forward rates; Bond pricing; Bond yields; Default risk and bond pricing; Interest rate risk and convexity; Duration: the concept of duration, measuring duration; Bond duration and price volatility; Concept of immunization; Bond management strategies; Common stock valuation: valuation by comparable, intrinsic value versus market price, dividend-discount models, price-earnings ratio, free cash flow valuation approaches, the aggregate stock market.

Unit 7: Mutual Fund and Performance Evaluation

LH 5

Types of investment companies; Organization and functioning of mutual funds; net assets value, holding period return, load fees and service charges and other considerations while investing in mutual funds; measuring the performance of mutual funds; Mutual funds in Nepal.

Prescribed text books:

Bodie, Z., Kane, A., Alan, M. J. & Mohanty, P. *Investments (12th ed)*. New Delhi: Tata McGraw Hill.

Gitman, L. J., Joehnk, M. D., & Smart, S. B. *Fundamentals of investing*. New Delhi: Pearson Education.

Suggested reference:

Alexander, G. J., Sharpe, W. F. & Jeffery V. B. *Fundamentals of investments*. Delhi: Pearson Education.

Reilly, F. K. & Keith, C.B. *Investment analysis and portfolio management (10th ed)*. New Delhi: Cengage Learning (India) Private Limited.

Commercial Bank Management

Program/Semester: MBA/Fourth Semester

Course Title: Commercial Bank Management

Course Code: FIN 645

Credit Hours: 3

Lecture Hours: 45

Nature: Concentration Area: Banking and Finance

Course Description

This course constitutes of introduction on banking, the bank regulatory environment, evaluating bank performance, liquidity management, bank capital management, liabilities management, bank lending: policies and procedures, assets and liabilities management and special topics in banking.

Course Objectives

The main objective of this course is to introduce concepts, theories and practices in commercial banking. It focuses on types, functions, organization, regulations and management of commercial banks.

Learning Outcomes

The successful completion of this course shall enable the student to:

- describe the functions and services of banking institutions.
- discuss general regulation of the banking system.
- understand and analyze the financial statements of commercial banks and calculate different types of ratios to evaluate the performance of banks.
- define the basic liquidity problems in commercial banks, estimate banks' liquidity and identify the resources available to meet bank liquidity needs.
- discuss the different capital adequacy of banking institutions from the perspective of both regulators and shareholders.
- describe different types of bank loans, the lending procedures and identify the sources of information for loans.
- describe the concept and techniques of assets-liabilities-management of commercial banks.

Course Contents

Unit 1: Introduction to Banking and Bank Regulation

LH 5

Meaning and types of banks; function of banks; services offered by a bank; Delivering banking products and services through digital channels; assets and liabilities of commercial banks; bank regulatory environment: reasons behind banks regulation, the evolution of Basel regulations (Basel I, II and III) and regulation of banking institutions in Nepal.

Unit 2: Lending Operations of Commercial Banks

LH 7

Types of loans made by banks; steps in the lending process; credit analysis; sources of information; loan review; loan provisioning; rescheduling of loans; analyzing business loans: credit risk assessment and financial statement analysis; pricing of business loans; loan agreement and NRB regulation on business lending.

Unit 3: Liabilities Management

LH 7

Structure of bank liabilities, deposit and non-deposit liabilities, types of deposits offered by commercial banks, deposit pricing techniques, NRB regulations on interest rates and depository services pricing; types and benefits of non-deposit sources; inter-bank borrowing and borrowing from the central bank.

Unit 4: Managing Bank Capital

LH 5

Concept and functions of bank capital; Capital and risk; Types of capital; Measurements of capital according to BASEL III; Capital adequacy; Capital requirement for Nepalese commercial banks as per NRB regulations.

Unit 5: Managing Liquidity and Reserves

LH 5

Need of liquidity management; demand for liquidity; supply of liquidity; estimating liquidity needs: Sources and uses of funds approach, The structure of fund approach; Liquidity indicator approach; Legal reserves: concept, sources of reserves, reserve requirements and calculation of reserve.

Unit 6: Evaluating Bank Performance

LH 8

Financial statements as a foundation of performance evaluation: balance sheet, income statement, cash flow statement, statement of retained earnings and off-balance sheet items; A framework for evaluating bank performance: internal and external performance; analyzing bank performance with financial ratios: profit ratios and risk ratios.

Unit 7: Assets/Liabilities Management

LH 8

Concept of asset/liability management; Asset-liability management strategy; Security pricing principles; Maturity period and securities prices; Two sides of interest rate risk; Using duration to hedge against interest rate risk; The bank immunization case; Funding gap; Relative gap ratio and interest rate sensitive ratio, Funding gap and equity immunization.

Prescribed textbooks:

Gup, Benton E, & Kolari, James W. Commercial Banking: The Management of Risk, Third Edition, Wiley & Sons (Asia) Pte. Ltd., Singapore
Rose, Peter S. Commercial Bank Management, McGraw- Hill Irwin.

Suggested References:

BAFIA, ALPA, NRB Directives on Payment Systems, Basel-related BCBS publications etc.
Narasaiah, M. Lakshmi. Commercial Banks and agricultural finance. New Delhi: Sonali Publications, 2009.