viii) International environment → International environment and international institutions affect the investment environment of the Country.

Q4 What is Risk? Explain its different types.

→ Risk is the possibility of loss or injury. Risk involves risk due to changes in market condition changes in interest rate and inflation. Risk may arrive due to irregularity of return, uncertainity of income and non-security funds. Investors usually aspect maximum return because they prefer maximum return with minimum ~~ratio~~ risk. Risk and uncertainity are an integral part of an investment decision in case of risk, Investor knows about the expected result of the investment decision. But in case of uncertainity no knowledge about the expected result.

Types of risk:

Risk consist of two component:
i) Systematic risk
ii) Unsystematic risk

i) Systematic risk → Systematic risk are those risk which arise due to uncontrollable and external factors. These factors are beyond the control. The Systematic risk affects the entire market. It means Systematic risk are unavoidable. The Systematic risk is further divided into three parts.

a) Market risk → According to Jack Clark ~~frane~~ Francis, "Market risk as that portion of total variability of return caused by alternating forces of bull and ~~be~~ bear market." Market risk arises due to changes in demand and supply in the market. When the security index moves upward for a significant period. The market is known as a bull market. In case of reverse the condition, this is called bear market.

b) Interest rate risk → Interest rate risk is the variation in the single period rates of return caused by the fluctuation in the market interest rate. Interest rate depends upon the nature of investment instruments. Interest rate risk is affected by monetary policy and measures which are beyond the control of the investors.

c) Purchasing power risk → Variations in the returns are caused by the loss of purchasing power currency. Inflation is the main reason behind the loss of purchasing power. The inflation may be demand pull and cost pull. The demand for goods and services are in excess of their supply. In case of, demand pull inflation. The cost push inflation refers to the rise in price caused by the increasing cost. The increase in the cost of raw material, labour and equipments makes the cost of production high and results in high price level.

ii) Unsystematic risk → Unsystematic risk is unique and peculiar a firm or an industry. Unsystematic risk steams from managerial inefficiency, technological changes in the production changes, availability of raw material changes in the consumer preference and labour problems. The nature of above factors differ from industry to industry and Company to Company. They have to be ~~analysed~~ analised separately for each industry and firm. Unsystematic risk can be ~~a~~ classified into two parts:

a) Business risk.
b) Financial risk.

a) Business risk → Is that portion of the unsystematic risk caused by the operating environment of business. Business risk arises from the inability of the firm to maintain its competitive ~~easy~~ edge and the growth of stability of the ~~business~~ ~~risk~~ earnings. Business risk can be divided into external business risk and internal business risk.

Internal business risk is related with the operational efficiency of the firm. The operational efficiency differs from Company to Company. The efficiency of operation is reflected on the Company's achievement of its ~~pos~~ presetbols and the fulfilment of the promises to its investors.

External risk is the result of operating Conditions imposed on the firm by circumstances which is beyond the control of a company. The external factors are social and regulatory factors, monetary and fiscal policies of the government, business cycle and the general economic environment within reach the firm or an Industry operates.

b) Financial risk → Financial risk is related with the Structure of the Company. Capital Structure of the Company consist of equity funds and borrowed funds. The Company has to pay interest and dividend on debentures and preference shares. The residual income

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Chapter: Fundamental Analysis

Q. 1. Calculate Gross Profit Ratio from the following detail

	₹
Opening stock	40000
Closing stock	60000
Purchases	710000
Purchase Return	10000
Wages	80000
Cash sales	345000
Credit Sales	630000
Sales Return	25000

Solution:

Working Notes

1. Total Sales = Cash Sales + Credit Sales
= 345000 + 630000 = 975000

2. Net sales = Total sales − Sales Return
= 975000 − 25000 = 950000

3. Net Purchase = Purchases − Return
= 710000 − 10000 = ₹ 700000

4. Cost of sales = Opening stock + Net Purchases + Wages − closing stock

$= 40000 + 700000 + 80000 - 60000$

$= 760000$

5. Gross Profit = Net sales − Cost of sales

$= 950000 - 760000$

$= 190000$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit} \times 100}{\text{Net sales}}$$

$$= \frac{190000 \times 100}{950000}$$

$= 20\%$

Ans