PGDM-IBM, 2020-22
Business Environment
INS-101
Trimester I, End Term Examination: October 2020

Time allowed: 2 Hrs 30 Min Roll No: ………………….
Max Marks: 50

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

SECTION A – (10 marks * 3 questions) = 30 Marks

A1. What does price elasticity of demand (e_p) capture? Why it is a relevant indicator for the businesses. (10 marks) (CILO1).

OR

A1. Discuss the impact of shortage in a market. Hint: analyse/show whether and how that market will clear [state your assumptions]. (10 marks) (CILO 1).

A2. What are the major constituents of Indian financial sector? Support your answer with facts or figures (10 marks) (CILO-2).

OR

A2. How do technological and legal environment impact the financial sector? Discuss with Indian examples. (10 marks) (CILO 2)

A3. What are the drivers of demand for insurance? (10 marks) (CILO 3).

OR

A3. Provide an assessment of start-up activities in the insurance sector. (10 marks) (CILO 3).

SECTION B – CASE STUDY (2*10=20 Marks) (CILO 1 & 2)

[Case: Investment Return from Indian Stock Market—Bombay Stock Exchange (BSE) SENSEX]

B1. Compute the percentage return (profit or loss) an investor got as per the following schedule (no need to annualize): (10 marks) (CILO 1 & CILO 2).

Date of investment	Date of sale
03.10.2001	09.01.2004
17.05.2004	11.05.2006
11.05.2006	14.06.2006
14.06.2006	10.01.2008
16.03.2007	10.01.2008
09.02.2007	24.10.2008
17.05.2004	10.01.2008

B2. What would have been the percentage return of an investor in the following scenarios…
a) the investor entered the market on 14.01.2020 and exited the market on 23.03.2020,
b) the investor entered the market on 23.03.2020 and exited the market on 28.08.2020,
c) the investor entered the market on 24.10.2008 and exited the market on 23.03.2020.
Which scenario (a, b, or c) is most likely and why? (10 marks) (CILO 1 & CILO 2).

CASE:
Investment Return from Indian Stock Market—Bombay Stock Index (BSE) Sensex

It is important for all investors who invest or tend to invest in equities to take a historic trip, particularly during times when the investor feels tired and let down by the market. We need to be aware that bearish/bullish time is not new in market but public memory being short, one tends to forget the days of despair.

The following table depicts the peaks and troughs of BSE Sensex.

SENSEX high	**Date**	**SENSEX low**	**Date**
A. Year 1992-2008			
4546	02.04.1992	1980	27.04.1993
4643	12.09.1994	2713	04.12.1996
6150	14.02.2000	2156	03.10.2001
6249	09.01.2004	4227	17.05.2004
12671	11.05.2006	8799	14.06.2006
14723	09.02.2007	12316	16.03.2007
21206	10.01.2008	8701	24.10.2008
B. YEAR 2020			
SENSEX high	**Date**	**SENSEX low**	**Date**
41952	14.01.2020	25981	23.03.2020
39467	28.08.2020	38193	09.09.2020

Source: BSE

It is worth noting that the most interesting development of the period was in early 1990s which witnessed amazing growth of investor population in the stock market and stock investing becoming fashionable for the first time, with new Stock Exchanges mushrooming in every nook and corner of the country. This was a time when market regulations were weak and SEBI had no effective punitive power.

Now look at the table again. In a matter of seventeen months the very same market bounced back to touch 4643 points on 12 September 1994 from 1980 on 27 April 1993. The market went up by more than 100 percent in 17 months! Just have a look at the market peaks alone. The next peak was 6150 (in 3 years and 2 months), the next at 6249 (in 2 years 3 months), then at 12671 (in 2 years), then at 14723 (in 8 months), and then at 21206 points (in 10 months). Here, the intention is not to predict when and how much the Sensex will bounce back in the days to come, but to point out that all those who courageously got into the market in each of the troughs and waited patiently got incredible return as the market often peaked above the previous peak.

Now what happened to those who invested during the peak time in each of the market peaks—many new investors tend to start investing at the peak—they saw their wealth going down by 50 to 70 percent! Compare this to the wealth of all those who got into the market when the market touched bottom every time! The lesson to be learn is—it requires courage to invest when every other investor leaves the market, not *vice versa*.

In this backdrop we must also analyse what happened in the market that pulled Sensex down to 8701 points in 2008. Many foreign institutions and hedge funds have become bankrupt in their home countries forcing them to sell Indian assets at throwaway prices pulling the market down. One serious difference is that this time we had a global magnitude to this crash in relation to liquidity.

The stock market continued to touch new heights. SENSEX reached all time (closing) high of 41952 on 14 January 2020. The COVID-19 pandemic brought the bears back in the market. The bulls need to be revitalized.