

DECCAN HERALD  
4 March 2001

# Ways to measure

A useful introduction to financial securities for anyone with a non-finance background but interested in the subject

able hand holding and the instructions are clearly given which can be followed by any one who is interested in using Excel for financial applications.

Overall, A S Ramasastrri has succeeded in making a fairly technical and mathematical subject understandable to someone who may have an interest in these subjects. The theory has been kept to the minimal and sev-

eral of the important concepts are illustrated using examples.

This book would be a good introduction to financial securities for anyone who has a non-finance background but has an interest in finance.

Ashok Thampy

**V**ALUATION of financial assets is a rather esoteric subject and a skill in increasing demand with the developments in the financial markets. It is also a subject that requires a fair degree of quantitative skills.

Ramasastrri has written about the different methods for valuing and measuring the risk of financial assets in the form of questions and answers in a manner which makes it comprehensible to even persons with limited quantitative skills.

The book is divided into five major sections. The first four sections cover valuation of bonds, equity, portfolio and options. The fifth section deals with the use of spreadsheet software in financial applications. These five broad areas are covered in 100 questions and answers. Each section starts with basic questions and then progresses to more advanced topics. The questions and answers towards the later part of each section are on the use of quantitative tools in the valuation of financial assets and their applications.

Bonds are explained starting from the basic concepts and progressing to advanced topics like duration, and immunisation of bonds from interest rate risk. The more complicated topics like convexity of a bond is discussed in a simple and understandable manner.

The section on equity discusses the basic issues in the valuation of equity and then moves on to different methods of valuing shares such as the valuation ratios and the dividend discount models. However, the section on the valuation of equities does not go on to issues such as the valuation of equities based on the present value of growth opportunities which is the relevant approach for valuing the high growth potential companies such as those operating in the information technology sector.

The discussion on portfolio issues looks at risk and return in the context of holding a portfolio of securities. Important topics like diversifiable and non-diversifiable risk, beta, efficient portfolios, capital market line and capital asset pricing models are discussed.

Options are increasingly used to manage financial risk. The section on options starts with the

discussion of call and put options and then goes on to describe the distinction between American and European options. Options valuation models such as the Black-Scholes model and the binomial option model are described along with their applications. In each case an example is worked out which helps the reader to understand the techniques better. In this section, inclusion of diagrams showing the payoffs on options would have been helpful to understand the difference in the payoffs in the case of options compared to the buying or selling of securities.

Spreadsheets are a powerful tool for businesses and have several useful finance functions. Using Microsoft Excel as the software, the author provides step-by-step instructions for using several useful financial functions.

Functions and tools such as present value, goal seek, scenario analysis are discussed step-by-step which should be very useful to a first time user of these techniques. An application of the technique for finding the optimal portfolio composition is also shown step by step.

Although the book does not provide diagrams of the Excel spreadsheet at each stage, there is consider-

## QUANTITATIVE METHODS FOR VALUATION OF FINANCIAL ASSETS

A S Ramasastrri

New Delhi: Response, 2000, pp 199

Rs 175 (paper), Rs 325 (cloth)

Quantitative Methods for

# VALUATION OF FINANCIAL ASSETS

100  
QUESTIONS AND ANSWERS

A Guide to the Valuation of Bonds, Equity Portfolios and Options

A.S. RAMASASTRI