

CA Final Advanced Financial Management

MCQs Compilation

From Exam Paper, RTP, MTP, BoS Portal

Updated till MTP May-26
Relevant for May 26 & onwards...

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Meet Adish

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QUESTION BANK WITH AUDIO SOLUTIONS

$$\sigma_p^2 = (\sigma_A^2 w_A^2) + (\sigma_B^2 w_B^2) + 2w_A w_B \sigma_A \sigma_B r_{AB}$$

$$\sigma_p^2 = (\sigma_A^2 w_A^2) + (\sigma_B^2 w_B^2) + 2w_A w_B \text{Cov}_{AB}$$

In case of 3 securities in the portfolio:

$$\sigma_p^2 = (\sigma_A^2 w_A^2) + (\sigma_B^2 w_B^2) + (\sigma_C^2 w_C^2) + 2w_A w_B \text{Cov}_{AB} + 2w_A w_C \text{Cov}_{AC} + 2w_B w_C \text{Cov}_{BC}$$

Special Case of n=2 of two securities, when r is equal to +1 and -1

Perfect Negative $r = -1$ No Correlation $r = 0$ Perfect Positive $r = +1$

If we put $r = +1$ and -1 in the below formula of SD:

$$\sigma_p = \sqrt{(\sigma_A^2 w_A^2) + (\sigma_B^2 w_B^2) + 2\sigma_A \sigma_B w_A w_B r_{AB}}$$

$\sigma_p = \sigma_A w_A - \sigma_B w_B$ $\sigma_p = \sigma_A w_A + \sigma_B w_B$

$E(R_p) = E(R_A) \times w_A + E(R_B) \times w_B$

QUESTION 6:
RTP N 20
Mr. SG sold five 4-Month Nifty Futures on 1st February 2020 for ₹ 9,00,000. At the time of closing of trading on the last Thursday of May 2020 (expiry), Index turned out to be 2100. The contract multiplier is 75.
Based on the above information calculate:

- The Price of one Future Contract on 1st February 2020.
- Approximate Nifty Sensex on 1st February 2020 if the Price of Future Contract on same date was theoretically correct. On the same day Risk Free Rate of Interest and Dividend Yield on Index was 9% and 6% p.a. respectively.
- The Maximum Contango/Backwardation.
- The Pay-off of the transaction.

Note: Carry out calculation on month basis.

Solution:

- Price of one future contract on 1st Feb, 2020

$$= \frac{900000}{5}$$

$$= ₹ 180000$$
- Calculation of Nifty Index Spot Price:

$$FP = SP \times [1 + (r - y) \times n] \times 75$$

$$180000 = SP \times [1 + (0.09 - 0.06) \times 4/12] \times 75$$

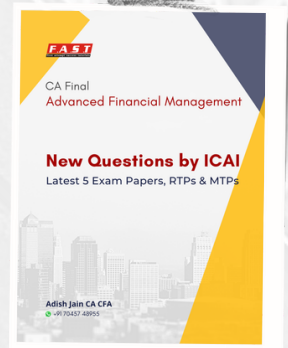
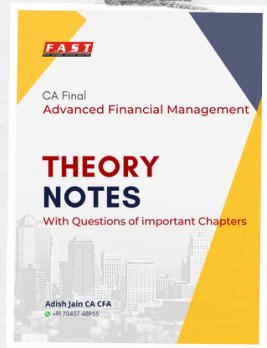
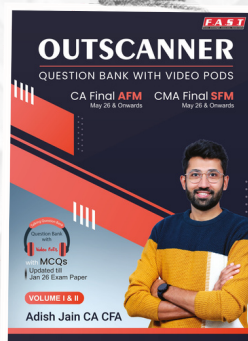
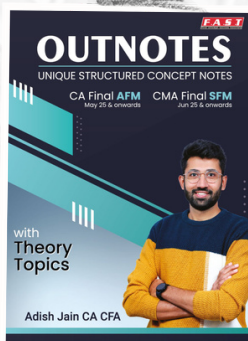
$$178218 = SP \times 75$$

$$2376.23 = SP$$
- Maximum contango/Backwardation
 spot = 2376.23
 future = 2400 (180000/75)
 $5 < F$
 $2376.23 < 2400 \therefore$ market is in contango
 Max. contango = Basis
 $= S - F$

UNIQUE STRUCTURED CONCEPT NOTES

Updated Important AFM Materials...

Tap on it to download



SCAN this QR Code

Download all relevant materials applicable for upcoming attempt!

Important Instructions

before we read this book...

- This book has a compilation of all unique MCQs from institute's Exam-papers, RTPs, MTPs and BoS Knowledge Portal.
- Repeated MCQs asked by ICAI in Exam-papers, RTPs & MTPs which are based on descriptive questions of Question Bank (OutScanner) are not included in this book.

All the best!

FINANCIAL POLICY AND CORPORATE STRATEGY

RTP S 25

1. In a recent Board Meeting of N Ltd. following financials of N Ltd. for the year ending 31st March 2025 were presented:

Balance Sheet as on 31.03.2025

Liabilities	₹ '000	Assets	₹ '000
Equity Capital	4,80,000	Fixed Assets	2,42,000
10% Bonds	92,000	Cash	88,000
Sundry Creditors	66,000	Sundry Debtors	1,10,000
Bills Payable	88,000	Closing Stock	3,3,0000
Other Current Liabilities	44,000		
Total Liabilities	7,70,000	Total Assets	7,70,000

Income Statement for the Year ending 31.03.2025

Particular	(₹ '000)	(₹ '000)
Sales		11,77,000
Less: Cost of Goods Sold		
Material	4,18,000	
Wages	2,64,000	
Factory Overheads	1,29,800	8,11,800
Gross Profit		3,65,200
Less: Selling & Distribution Cost	1,10,000	
Administrative Cost	1,22,800	2,32,800
Earnings Before Interest and Taxes (EBIT)		1,32,400
Less: Interest Charges		9,200
Earning Before Tax		1,23,200
Less: Taxes @ 50%		61,600
Net Profit (PAT)		61,600

During the Board Meeting:

- (i) Director A said that the company can maintain a certain growth even though the net profit margin remains constant, and assets increases proportionately to sales and it distributes its 30% of its net profit. To maintain this growth rate, it will not require any external funds.
- (ii) Director B proposed that just by maintaining a target capital structure and without issuing additional equity and maintaining target dividend pay-out ratio as proposed by Director A, more growth rate can be achieved.
- (iii) Director C though agreed with views of Director A and Director B, but is of the view that in the coming year it is expected that sales is likely to rise by 15%, hence if required we can go for issue of equity shares, bonds or debentures to achieve the same growth in sales.

From the information given above, choose the correct answer to the following questions:

1. The Director A is talking about.....
 - (a) Internal Growth Rate
 - (b) Sustainable Growth Rate

Multiple Choice Questions

- (c) External Funding Requirements
- (d) External Growth Rate

Ans. (a)

2. The Director B is talking about.....

- (a) Internal Growth Rate
- (b) Sustainable Growth Rate
- (c) External Funding Requirements
- (d) External Growth Rate

Ans. (b)

3. The Director C is talking about.....

- (a) Internal Growth Rate
- (b) Sustainable Growth Rate
- (c) External Funding Requirements
- (d) External Growth Rate

Ans. (c)

4. If we go by the proposal of Director C, then approximately.....funds shall be raised from in form of equity or debt, assuming that dividend as proposed by Director A is paid out and assets and current liabilities are increased in the same proportion as increase in sales.

- (a) ₹ 1,15,500 thousand
- (b) ₹ 85,800 thousand
- (c) ₹ 79,332 thousand
- (d) ₹ 36,212 thousand

Ans. (d)

MTP S 25

XYZ Ltd., a medium-sized company in the renewable energy sector, is experiencing steady sales growth. The company's management, however, is concerned about balancing rapid growth with long-term sustainability. In the past year, XYZ's growth objectives have led to aggressive expansion plans, but management now realizes that such growth might not be financially sustainable in the long run. This raises concerns about how to maintain the company's financial health while meeting its ambitious growth targets.

The CFO of XYZ Ltd. highlights the importance of Sustainable Growth Rate (SGR).

The company now needs to ensure that its operational and financial policies align with its growth goals. XYZ must avoid expanding too quickly, which could strain its financial resources and lead to excessive borrowing. Moreover, management must also consider the long-term implications of resource consumption, particularly in the renewable energy industry, where sustainability is key to both current and future stakeholders.

XYZ Ltd. also realizes that it needs to focus on building its growth capability alongside its growth strategy. Without the necessary infrastructure and financial planning in place, the company's efforts to achieve long-term, sustainable growth could be in jeopardy. Furthermore, the company is aware of the risks of relying too much on external financing and recognizes the need for a balance between maintaining sufficient equity and minimizing debt.

Given the importance of these considerations, XYZ's management team must now review their growth strategy and financial policies to ensure they are consistent with the firm's sustainable growth objectives.

From the information given above, choose the correct answer to the following questions:

1. The concept of Sustainable Growth Rate introduced by.....
 - (a) Harry Markowitz
 - (b) William Sharpe
 - (c) Black Scholes
 - (d) Robert C. Higgins**
2. The Sustainable Growth Rate (SGR) represents.....
 - (a) the rate at which the company can grow by issuing more equity.
 - (b) the maximum rate of growth in sales that can be achieved without borrowing additional funds.**
 - (c) the growth rate determined by market demand for XYZ's products.
 - (d) the rate of growth determined by inflationary pressures.
3. According to the case scenario the risk associated with growing too quickly is that.....
 - (a) the company might not be able to retain competent staff.
 - (b) the company could face liquidity issues due to over-expansion.**
 - (c) the company's stock price might decline.
 - (d) it could reduce the company's market share.
4. Which of the following twin cornerstones are necessary for XYZ Ltd. to achieve sustainable growth?
 - (a) Market conditions and competition.
 - (b) Growth capability and growth strategy.**
 - (c) Product innovation and marketing strategy.
 - (d) Cost-cutting measures and increased sales.
5. In an inflationary condition if creditors require that XYZ Ltd.'s historical cost debt-to-equity ratio stay constant, the inflation.....
 - (a) reduces the need for external financing.
 - (b) increases the sustainable growth rate by lowering costs.
 - (c) lowers the sustainable growth rate.**
 - (d) It has no effect on the company's growth rate.

BoS Knowledge Portal:

1. is the springboard for wealth creation.
 - A. Investment in highly risky securities.
 - B. Capital investment**
 - C. Foreign Exchange Risk Management
 - D. None of the above
2. The primary objective of investors in a world of economic uncertainty is.....
 - A. to select investment and financial opportunities that will give them maximum expected returns at minimum risks.**
 - B. to select investment and financial opportunities that will give them maximum expected returns at maximum risks.
 - C. to select investment and financial opportunities that will give them minimum expected returns at maximum risks.
 - D. None of the above

Multiple Choice Questions

3. The Strategic financial management is
- A. Backward looking
 - B. Report-focused discipline
 - C. Forward-looking subject of financial management
 - D. **All of the above**

RISK MANAGEMENT

RTP M 26

Mr. Y is a rational risk taker. He takes his position in derivative market of a single stock through margin trading for 4 days in a week. He does not take a position on Friday to avoid weekend effect and takes position only for four days in a week i.e. Monday to Thursday. He transfers the amount on Monday morning and withdraws the balance on Friday morning. He desires to take a maximum exposure in the derivative market where Value at Risk (VaR) should not exceed the balance lying in his bank account. The position by his manager, as per standing instructions, is taken on the free balance lying in the bank account in the morning on each Monday.

On Monday morning (before opening of the capital market) he has transferred an amount of ₹ 11 Crore to his bank account. A fixed deposit also matured on this Monday. The maturity amount of ₹ 63,42,560 was also credited to his account by the bank in the morning of the Monday. However, Mr. Y received the intimation of the same in the evening. The bank needs a minimum balance of ₹ 1,000 all the time.

The other information with respect to stocks A and B, which are under consideration for this week, is as under:

A		B	
Return	Probability	Return	Probability
6	0.10	4	0.10
7	0.25	6	0.20
8	0.30	8	0.40
9	0.25	10	0.20
10	0.10	12	0.10

From the information given above, choose the correct answer to the following questions:

1. The amount that will not be considered for taking position on Monday morning is.....
 - (a) ₹ 63,41,560
 - (b) ₹ 63,42,560**
 - (c) ₹ 11,00,00,000
 - (d) ₹ 10,99,99,000
2. II. Which stock has a wider dispersion of returns based on the given probability distribution?
 - (a) Stock A
 - (b) Stock B**
 - (c) Both have equal dispersion
 - (d) Cannot be determined
3. III. In Value at Risk (VaR) analysis, which factor directly increases VaR for a given investment?
 - (a) Higher expected return
 - (b) Lower confidence level
 - (c) Higher standard deviation**

- (d) Shorter holding period
4. IV. Since Mr. Y invests in derivative of a single stock (not a portfolio), the risk considered for VaR is.....
- (a) diversifiable risk
 (b) unsystematic risk only
 (c) **total risk**
 (d) market risk only

BoS Knowledge Portal:

- Which type of risk is primarily faced by a company when it ventures into a new industry or geographical area with completely different laws and regulations?
 - Operational Risk
 - Compliance Risk**
 - Currency Risk
 - Financial Risk
-is associated with diffusion of economic crisis throughout a market, asset class or geographic region.
 - Systematic Risk
 - Unsystematic Risk
 - Contagion Risk**
 - Credit Risk
- Which of the following techniques can be used to manage counter party risk?
 - Local sourcing of raw materials and labour.
 - Evaluating countrys macro-economic conditions.
 - Rapid action in the event of any likelihood of defaults.**
 - Entering into joint ventures.
- Which type of risk occurs when a counter party fails to honour their obligations?
 - Interest Rate Risk
 - Currency Risk
 - Credit Risk**
 - Political Risk
- One year VaR [Value at risk] of a portfolio is Rs. 10 crores with a confidence level of 95%. This means.....
 - There is a 5% probability that the loss will be Rs. 10 crores at the end of the year
 - The loss will not exceed Rs. 9.5 crores during valuation anytime during the year
 - The worst expected portfolio loss over one year will not exceed Rs. 10 crore with 95% confidence**
 - The investor can presume that there is a 95% chance of loss over one trading year will exceed Rs. 10 crore

ADVANCED CAPITAL BUDGETING DECISIONS

J 26

PQR Ltd. is considering two new products A and B, only one of which can be added to its production line. Product A is a sure seller. It is certain that 2,00,000 units of product A with the firm's maximum capacity can be manufactured and sold each year with a contribution margin of ₹ 5 per unit.

Product B with a contribution margin of ₹10 per unit is potentially more profitable.

However, there is uncertainty about its marketability and following sales forecast has been prepared:

<u>Sales units of B (per annum)</u>	<u>Probability</u>
50,000	0.25
1,00,000	0.50
1,50,000	0.25

Fixed cost per year is ₹ 6,00,000.

From the information given above, choose the correct answer to the following Questions:

- If Company selects product A, the profit of the company is-
 - ₹ 2,00,000
 - ₹ 4,00,000**
 - ₹ 6,00,000
 - ₹ 10,00,000
- If company select product B and sale 1,40,000 units, the profit of the company is-
 - ₹ 4,00,000
 - ₹ 8,00,000**
 - ₹ 10,00,000
 - ₹ 12,00,000
- If company select product B, the expected value of profit of the company is -
 - ₹ 2,00,000
 - ₹ 4,00,000**
 - ₹ 8,00,000
 - ₹ 10,00,000

BoS Knowledge Portal:

- Sensitivity analysis is useful in decision making because:
 - It shows the probabilities associated with each outcome.
 - It tells the user how much critical each input is for the Output value.**
 - It allows to calculate the probable results under different scenarios.
 - The results of Sensitivity Analysis are reliable.
- When the risk is high, the cash flow under certainty equivalent coefficient is:
 - Higher
 - Lower**
 - No impact
 - None of the above

3. The firm expects an NPV of Rs. 10,000 if the economy is exceptionally strong (30% probability), an NPV of Rs. 4,000 if the economy is normal (40% probability), and an NPV of Rs. 2,000 if the economy is exceptionally weak (30% probability). Expected Net present value is _____.
 - A. **Rs. 5,200**
 - B. Rs. 6,000
 - C. Rs. 5,000
 - D. Rs. 6,200
4. Expected cash flows are calculated as:
 - A. Sum of likely cash flow of the project.
 - B. **Sum of likely cash flow of project multiplied by probability of respective cash flows.**
 - C. Sum of likely cash flow of project divided by probability of cash flow.
 - D. none of these
5. Which of the following critical factor is generally overlooked by capital budgeting decision makers.
 - A. Quantitative factors
 - B. **Qualitative factors**
 - C. Time factor
 - D. Discounting factor
6. Scenario Analysis is considered under scenarios such as:
 - A. Worst Case Scenario
 - B. Base Case Scenario
 - C. Best Case Scenario
 - D. **All of the above**
7. Variance measures....
 - A. **How far each number in the set is from the mean.**
 - B. The mean of a given data set.
 - C. Return on Investment
 - D. Level of risk borne for every percent of expected return.
8. Certainty Equivalent approach is:
 - A. **Guaranteed return from an investment after adjusting for certainty equivalent coefficient.**
 - B. Return that is expected over the lifetime of a project.
 - C. Equivalent to Net Present Value.
 - D. An important component in Decision Tree Analysis.

SECURITY ANALYSIS

MTP M 25

An American institutional investor is exploring investment opportunities in different countries. Before proceeding, they believe a thorough analysis of options in the securities available to ensure a higher return while minimizing risk.

Multiple Choice Questions

To achieve this objective, it formed a team consisting of following persons with respective assigned tasks:

Mr. A – He is entrusted with the task of analysing various Macro-economic factors e.g. historical performance of the economies in the past/ present and expectations in future, growth of different sectors of the economies in future with signs of stagnation/degradation at present. In addition to that he also analysed the trends in peoples' income and expenditure.

Ms. B – After receiving inputs/ recommendations from Mr. A she is entrusted with the task of assessment regarding all the conditions and factors relating to demand of the particular product, cost structure of the industry and other economic and Government constraints in the same country.

Mr. C – After receiving inputs/ recommendations from Ms. B he is entrusted with the task of careful examination of the company's quantitative and qualitative fundamentals. Which includes a comparison of price earning ratios of different companies. Further, In addition to examine the financial solvency, liquidity of the company he is also advised for the evaluation of future growth prospects of the company identified.

Based on the above case scenario, choose the correct answer to the following questions:

1. If Mr. A want to evaluate the impact of macroeconomic trends on their potential investment. Which of the following factors is least likely to influence their decision?
 - A. Growth rates of national income
 - B. Inflation rates
 - C. Market speculation trends**
 - D. Barometer indicators
2. The investor learns that inflation is expected to rise. Based on economic analysis, how might this affect their stock investment decision?
 - A. Stock prices are expected to decline due to reduced consumer demand
 - B. Stock prices are expected to rise as stocks act as a hedge against inflation**
 - C. Stock prices will remain unaffected as inflation only affects bond markets
 - D. Stock prices will become highly volatile, but long-term growth remains unchanged
3. Which of the techniques shall be primarily used by Ms. B to carry out the required analysis at his part?
 - A. Anticipatory Surveys
 - B. Indicator Approach
 - C. Input-Output Analysis**
 - D. Decision Tree Analysis
4. Mr. A while analyzing industry growth, finds that certain indicators tend to peak before the economy's overall growth. These indicators are best classified as.....
 - A. Lagging indicators
 - B. Leading indicators**
 - C. Coincidental indicators
 - D. Random indicators
5. Specifically, the team of Mr. A, Ms. B, and Mr. C are entrusted with the task of carrying out.....
 - A. Fundamental Analysis**
 - B. Technical Analysis
 - C. Market Analysis
 - D. Security Analysis

MTP N 24 & M 26

You are an investment analyst working for a financial advisory firm. You have been asked to analyze the bond market's yield curve to assist your clients in making investment decisions. The yield curve represents the relationship between the interest rates (yield) and the time to maturity for debt securities, usually government bonds.

For simplicity, assume the following yield data for government bonds over various maturities (measured in years):

Yield Curve Table

Maturity (Years)	Yield (%)
1 Year	3.00%
2 Years	4.00%
3 Years	5.00%
5 Years	6.00%
7 Years	6.40%
10 Years	7.00%
15 Years	7.40%
30 Years	7.60%

Based on above case scenario answer the following questions:

- The main characteristic of a normal yield curve is.....
 - Short-term yields are higher than long-term yields.
 - Short-term yields are lower than long-term yields.
 - Yields remain the same across all maturities.
 - Yields fluctuate randomly over different maturities.

Ans. (b)

- Based on the revised yield data, what is the yield spread between the 10-year bond and the 1-year bond?
 - 2.0%
 - 3.5%
 - 4.0%
 - 5.0%

Ans. (c)

- An inverted yield curve typically indicates.....
 - Economic growth
 - Economic uncertainty
 - An upcoming recession
 - Inflationary pressure

Ans. (c)

- If an investor is looking to invest for 2 years starting 3 years from now, the forward rate he would expect shall be.....
 - 7.41%
 - 7.52%
 - 7.76%
 - 7.93%

Ans. (b)

Multiple Choice Questions

5. If an investor is looking to invest for 2 years starting 5 years from now, the forward rate he would expect shall be.....
- (a) 7.41%
 - (b) 7.52%
 - (c) 7.76%
 - (d) 7.93%
- Ans. (a)**
6. The shape of the yield curve given in the data can best be described as.....
- a. Inverted
 - b. Flat
 - c. Normal (upward sloping)**
 - d. Humped
7. Which bond carries the highest interest rate risk (price sensitivity)?
- a. 1-year bond
 - b. 5-year bond
 - c. 10-year bond
 - d. 30-year bond**
8. If inflation expectations increase sharply, the most immediate impact will likely be seen on yield curve.
- a. Yield curve will become flat.
 - b. Yield curve will become humped.
 - c. Entire yield curve shifting upward.**
 - d. Entire yield curve shifting downward

RTP M 24

You are a financial analyst at a prominent investment firm and have been tasked with empirically verifying the weak form of Efficient Market Hypothesis (EMH) Theory for the XYZ Stock Index, a collection of diverse stocks. You decided to conduct three different tests to assess whether the stock market follows the principles of the weak form of EMH.

Test 1:

For the past five years, you collected daily price changes of the stocks in the XYZ Stock Index. You calculated correlation coefficients for different lag periods and analyzed whether past price changes exhibit any significant correlation with future price changes. You considered price changes to be serially independent. The results indicated that most auto correlation coefficients are close to zero and statistically insignificant, suggesting those past price changes do not predict future price changes.

Test 2:

You further investigated the randomness of price changes in the XYZ Stock Index. Analyzing the sequence of daily price changes, you count the number of runs where price changes are consistently positive or negative. Upon comparing the observed number of runs with the expected number based on randomness, you find that they align closely, supporting the idea that price changes follow a random pattern.

Test 3:

To examine the efficacy of trading strategies based on historical price trends, you implemented a simple trading rule for the XYZ Stock Index. The rule involves buying when the price crosses a moving average of 5% threshold and selling when it crosses another 7% threshold. Over a period of testing, you computed the returns generated by the trading

strategy. The results revealed that the returns are not consistently better than random chance, implying that past price trends do not reliably predict future price movements.

Conclusion:

After conducting the three tests the evidence supports the weak form of Efficient Market Theory for the XYZ Stock Index you concluded that past price trends do not reliably predict future price movements.

Based on the above information answer the following questions:

1. Test 1 is
 - A. **Serial Correlation test**
 - B. Filter Rules test
 - C. Run test
 - D. Variance Ratio test
2. Test 2 is
 - A. Serial Correlation test
 - B. Filter Rules test
 - C. **Run test**
 - D. Variance Ratio test
3. Test 3 is
 - A. Serial Correlation test
 - B. **Filter Rules test**
 - C. Run test
 - D. Variance Ratio test.
4. The Filter Rule Test should not be applied for buy and hold strategy if.....
 - A. the behaviour of stock price changes is predictable.
 - B. the behaviour of stock price changes is dependent on past trends.
 - C. the behaviour of stock price changes is correlated.
 - D. **the behaviour of stock price changes is random.**
5. Results of your studies support the.....
 - A. Semi-strong EMH Theory
 - B. Strong EMH Theory
 - C. **Random Walk Theory**
 - D. Markowitz Theory

MTP M 24

Suppose you are a financial consultant and following 3 clients have approached to you seeking advise on the investment to be made in securities. All these clients have different background and risk appetite as well as perception to the market.

- Client A wants to invest in Fixed income avenues and therefore he is looking at the credit rating of the securities as well as financial ratios such as interest coverage, earning power etc and the general prospect of the industry.
- Client B wants to earn a fixed income over a period of time by holding the security till its maturity.
- Client C wants to earn more by taking more risk. Therefore, he is more interested to invest in stocks. He believes that Price reflects all information found in the record of past prices and volumes.

Multiple Choice Questions

On the basis of above information, choose the most appropriate answer to the MCQs.

1. The main factor to be considered in selecting fixed income avenue for client A shall be.....
 - (a) Yield to maturity
 - (b) **Risk of Default**
 - (c) Tax Shield
 - (d) Liquidity
2. The main factor that have to be evaluated in the selection of Bond for Client B shall be.....
 - (a) **Yield to maturity**
 - (b) Risk of Default
 - (c) Tax Shield
 - (d) Liquidity
3. If Weak form efficiency is prevailing in the market then which approach is best for selection of Equity Shares?
 - (a) Technical Analysis
 - (b) **Fundamental Analysis**
 - (c) Random selection Analysis
 - (d) None of the above.

BoS Knowledge Portal:

1. Which of the following technique is not used for economic analysis?
 - A. Barometer/Indicator Approach
 - B. Economic Model Building Approach
 - C. **Mixed Forecasting**
 - D. Economic Model Building Approach
2. As per the Dow Jones Theory the Secondary movement of stock prices last from.....
 - A. one year to three years.
 - B. **three weeks to three months.**
 - C. day to day.
 - D. None of these
3. An efficient capital market is one in which.....
 - A. Taxes are irrelevant.
 - B. **Security prices reflect available information.**
 - C. Securities always offer a positive rate of return to investors.
 - D. Security prices are guaranteed (by the SEBI) to be fair.
4. Which factor significantly influences the demand in consumer products industries?
 - A. Interest rate
 - B. Discount rate
 - C. **Inflation rate**
 - D. None of the above
5. Which of the following is a drawback of the Anticipatory Surveys technique used in economic analysis?

- A. Survey results guarantee that intentions surveyed would materialize.
 - B. They are regarded as forecasts per se, as there can be a consensus approach by the investor for exercising his opinion.
 - C. Both of (a) and (b)
 - D. **None of the above**
6. Which of the following factor affects industry analysis?
- A. Product Lifecycle
 - B. Government Attitude
 - C. State of Competition in the Industry
 - D. **All of these**

SECURITY VALUATION

BoS Knowledge Portal:

1. The value a zero coupon with a maturity of three years and a maturity value of Rs 1,000 discounted at 7% is
 - A. **Rs. 816.30**
 - B. Rs. 901.94
 - C. Rs. 966.18
 - D. Rs. 1000
2. A debenture of Rs. 10000 carrying 15% coupon rate is quoted in the market at Rs.13500. The current yield on this debenture will be:
 - A. 13.50%
 - B. 15%
 - C. **11.11%**
 - D. 10%
3. The annual interest of a bond divided by its face value is called the bond's.....
 - A. Coupon Rate
 - B. Face value
 - C. Maturity
 - D. Yield to maturity
4. Which of the following is not a money market instrument?
 - A. Commercial paper
 - B. Participatory certificates
 - C. Warrant
 - D. Treasury Bills
5. A Ltd. issued commercial paper worth ₹ 10 crores as per the following details:
 Date of issue: 15th June, 2022
 Maturity period: 73 days
 No. of days in a year: 365 days

Multiple Choice Questions

Interest rate: 15% p.a.

Intermediary charges: 0.1% of Net Receipts

The net amount received by the company on such issue of CP shall be approximately.....

- A. ₹ 9,69,90,291
- B. ₹ 9,70,87,379
- C. ₹ 9,69,77,379
- D. ₹ 9,69,00,000

6. The following information is related to two bonds same in other respects:

Price of Bond A = Rs. 101

Price of Bond B = Rs. 120

Coupon Rate of Bond A = 14%

Coupon Rate of Bond B = 15%

If both the bonds are redeemable at a Premium of 10% after 2 years and the required yield on this category of Bonds is 16% then best avenue for investment shall be.....

- A. **Bond A**
- B. Bond B
- C. Any of the two Bonds
- D. Neither of the two Bonds

PORTFOLIO MANAGEMENT

MTP M 25

Zenith Capital, a boutique investment firm, manages portfolios for high-net-worth individuals (HNIs). Their lead portfolio manager, Mr. R, has been closely analyzing market trends to optimize returns for their fixed-income portfolio. Over the past few months, he has observed fluctuations in interest rates and anticipates a significant shift in the near future.

To optimise returns, Mr. R is considering three different investment strategies for clients having ₹ 10 crore of fund and are interested in Fixed Income Portfolio. Each strategy is designed to align with the client's risk appetite and future liquidity needs.

Strategy A: Investing the entire ₹ 10 crore in a single bond with a 7-year maturity to match a specific financial obligation in the future.

Strategy B: Allocating ₹ 5 crore in short-term bonds (1-year maturity) and ₹ 5 crore in long-term bonds (7-year maturity) to balance risk and return.

Strategy C: Spreading the ₹ 10 crore investment equally across bonds with maturities of 1 to 5 years to ensure periodic liquidity.

Meanwhile, Mr. R is also considering forecasting models to predict interest rate movements. He is evaluating economic indicators such as inflation, historical rate trends, and a combination of multiple economic factors to enhance the firm's forecasting accuracy.

Mr. R suggested Strategy B for Mr. H (a HNI) having a sum of ₹ 10 crore for investment in Fixed Income Portfolio. As per the strategy half amount on fund is proposed to be invested in 7-year bonds yielding 8% per annum and balance in 1-year short term bond yielding 6% per annum. Interest on these bonds is compounded annually.

Based on the above case scenario, choose the correct answer to the following questions:

1. What is the primary objective of an active bond portfolio strategy?

- A. To maintain a fixed return irrespective of market conditions
B. To outperform the market by making informed investment decisions
 C. To minimize volatility and ensure steady returns
 D. To invest in government bonds only
2. If any HNI follows Strategy A, thenof fixed-income portfolio strategy is being followed.
 A. Barbell Strategy
 B. Ladder Strategy
C. Bullet Strategy
 D. Duration Matching
3. In the Barbell Strategy, the funds are typically allocated.....
 A. by making entire investment in bonds with the same maturity period.
B. by dividing investment equally between short-term and long-term bonds.
 C. by dividing equal amount in bonds with different maturity periods.
 D. by investing only in short-term bonds.
4. In the ladder Strategy, the funds are typically allocated.....
 A. by making entire investment in bonds with the same maturity period.
 B. by dividing investment equally between short-term and long-term bonds.
C. by dividing equal amount in bonds with different maturity periods.
 D. by investing only in short-term bonds.
5. It is expected that interest rate in coming 8 years are expected to fall by 25 bps each year and if Mr. H does not withdraw any amount from the Fund during these 7 years the total value of the investment at the end of the 7th year shall be approximately.....
 A. ₹ 15.036 crore
B. ₹ 15.721 crore
 C. ₹ 15.739 crore
 D. ₹ 15.829 crore

N 24 RTP

Two friends, Mr. A and Mr. N were discussing the risks of market. While Mr. A is sort of risk averse, Mr. N is an aggressive investor and believes in taking risks.

Mr. N said we cannot diversify the market risk at all, and he quoted the Modern Portfolio Approach. Both friends analyze the market data for the few months and came out with expected returns on two stocks for a particular market.

Market Return	Aggressive	Defensive
7%	4%	9%
25%	40%	18%

Based on the above scenario, answer the following questions:

Note: Other parts of this question were repeated from descriptive questions from the questions bank (OutScanner). Only below questions are new to learn.

1. The Modern Portfolio Theory was propounded by
 (a) William Sharpe
 (b) Black Scholes
 (c) Stephen Ross

Multiple Choice Questions

(d) Harry Markowitz

Ans. (d)

2. As per Capital Market Line (CML) Theory the Portfolios lying on the CML over the market portfolio are called

- (a) Lending Portfolios
- (b) Borrowing Portfolios
- (c) Diversified Portfolios
- (d) Risk- Free Portfolios

Ans. (c)

BoS Knowledge Portal:

1. Risk Premium is:
 - A. **Extra rate of return expected by the Investors as a reward for bearing extra risk.**
 - B. Equivalent to the rate of Government Securities.
 - C. Return provided to equity shareholders.
 - D. Risk free rate of return.
2. Arbitrage Pricing Theory was developed by.....
 - A. William Sharpe
 - B. Harry Markowitz
 - C. **Stephan Ross**
 - D. Black Scholes
3. What is the common hypothesis for Traditional and Modern Theories of Portfolio Management.
 - A. Both approaches use statistical methods.
 - B. Both approaches are based on judgement.
 - C. **Both approaches are based on hypothesis that a portfolio reduces risk by diversification.**
 - D. None of these.
4. According to the CAPM, the intercept of Security Market Line (SML) should be equal to.....
 - A. zero.
 - B. the expected risk premium on the market portfolio.
 - C. **the risk-free rate.**
 - D. the expected return on the market portfolio.
5. Calculation of Coefficient of Variance depends on:
 - A. Standard Deviation
 - B. Expected Return
 - C. Expected cash flow
 - D. **All of the above**

SECURITIZATION

RTP N 23:

Grow More Ltd. an NBFC is in the need of funds and hence it sold its receivables to MAC Financial Corporation (MFC) for ₹ 100 million. MFC created a trust for this purpose called General Investment Trust (GIT) through which it issued securities carrying a different level of risk and return to the investors. Further, this structure also permits the GIT to reinvest surplus funds for short term as per their requirement.

MFC also appointed a third party, Safeguard Pvt. Ltd. (SPL) to collect the payment due from obligor(s) and passes it to GIT. It will also follow up with defaulting obligor and if required initiate appropriate legal action against them.

Based on above scenario, answer the following questions:

1. The securitized instrument issued for ₹ 100 million by the GIT falls under category of
 - A. Pass Through certificate (PTCs)
 - B. Pay Through Security (PTS)**
 - C. Stripped Security
 - D. Debt Fund.

2. In the above scenario, the Originator is.....
 - A. Grow More Ltd.
 - B. MAC Financial Corporation (MFC)**
 - C. General Investment Trust (GIT)
 - D. Safeguard Pvt. Ltd.

3. In the above scenario, the General Investment Trust (GIT) is a/an.....
 - A. Obligor
 - B. Originator
 - C. Special Purpose Vehicle (SPV)**
 - D. Receiving and Paying Agent (RPA)

5. In the above scenario, the Safeguard Pvt. Ltd. (SPL) is a/an.....
 - A. Obligor
 - B. Originator
 - C. Special Purpose Vehicle (SPV)
 - D. Receiving and Paying Agent (RPA)**

6. Which of the following statement holds true?
 - A. When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to rise.
 - B. When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to fall.
 - C. When Yield to Maturity in market falls, prices of Principle Only (PO) Securities tend to fall.
 - D. When Yield to Maturity in market falls, prices of Principle Only (PO) Securities remain the same.**

BoS Knowledge Portal:

1. The main objective of creating a Special Purpose Vehicle (SPV) in the securitization process is.....
 - A. to acquire legal and beneficial interest in the assets.

Multiple Choice Questions

- B. to issue securities to the investors.
 - C. **to remove the asset from the balance sheet of the originator.**
 - D. to write off the asset as bad debt from the balance sheet of the originator.
2.is the process of repackaging or rebundling of illiquid assets into marketable securities.
- A. Diversification
 - B. **Securitization**
 - C. Structured finance
 - D. Tokenization

MUTUAL FUNDS

MTP M 25

Mr. Ramesh, a 40-year-old investor, has invested ₹10,00,000 in an actively managed Equity Mutual Fund. The fund has an Expense Ratio of 2.50% and follows the Nifty 50 Index as its benchmark. Upon analyzing the Fund details, he comes across the concept of Tracking Error (TE) and finds out that the same Fund has a Tracking Error (TE) of 3.20%.

A few months later, Mr. Ramesh receives a notification that the Fund has implemented Side Pocketing. The Fund has an exposure of 15% of his investment in a debt instrument of XYZ Ltd, a company facing a severe financial crisis. Since XYZ Ltd has defaulted on its payments, the Fund Manager has moved this portion into a side pocket.

Following the decision of Fund Manager, Mr. Ramesh decides to reconsider any of the following option:

- 1. Should he stay invested in this Fund and wait for the Side-Pocketed assets to recover?
- 2. Should he switch to a Passive Index Fund that has a lower Tracking Error and lower Expense Ratio
- 3. Should he redeem his remaining liquid holdings and invest in a better-performing actively Managed Fund?

Based on the above scenario and given his current situation, choose the most appropriate answer for the following multiple-choice questions:

- 1. Is it necessary for investors to pay close attention to the Expense Ratio of a Mutual Fund because.....
 - A. **a high expense ratio can significantly reduce net returns over time.**
 - B. a higher expense ratio always guarantees better fund performance.
 - C. the expense ratio only matters in the first year of investment.
 - D. funds with higher expense ratios are always risk-free.
- 2. The Fund has been in replicating return on Nifty 50.
 - A. Successful
 - B. **Unsuccessful**
 - C. Can't say
 - D. Data is insufficient
- 3. After the decision of Fund Manager for side-pocketing the equivalent portion of Mr. Ramesh's investment shall _____.
 - A. remains illiquid until the Fund Manager decides to sell it or the company recovers.
 - B. be immediately written off, and the Mr. Ramesh loses that portion.
 - C. **be returned to Mr. Ramesh in proportion to his holdings.**
 - D. be moved into a different Mutual Fund Scheme with no risk.

4. If Mr. Ramesh switches to a Passive Index Fund with an expense ratio of 0.8%, then he will save annually compared to his current Expense Ratio of 2.50%?
- ₹ 8,000
 - ₹ 10,000
 - ₹ 17,000**
 - ₹ 18,000
5. The advantage for Mr. Ramesh to switch over to a Passive Index Fund shall be _____
- lower expense ratio and lower tracking error.**
 - guaranteed recovery of side-pocketed assets.
 - higher risk exposure compared to active funds.
 - avoiding capital gains tax on redemption.

MTP N 24

The Asset Management Company of the mutual fund (MF) has declared a dividend of 9.98% on the units under the dividend reinvestment plan for the year ended 31st March 2021. The investors are issued additional units for the dividend at the rate of closing Net Asset Value (NAV) for the year as per the conditions of the scheme.

The closing NAV was ₹ 24.95 as on 31st March 2021. An investor Mr. X who is having 20,800 units at the year-end has made an investment in the units before the declaration of the dividend at the rate of opening NAV plus an entry load of ₹ 0.04. The NAV has appreciated by 25% during the year.

Assume the face value of the unit as ₹ 10.00.

Based on the above Case Scenario, answer the following questions:

Note: Other parts of this question were repeated from descriptive questions from the questions bank (OutScanner). Only below questions are new to learn.

1. Which of the following statement about Expense ratio is/ are incorrect:
- It is the percentage of income that were spent to run a mutual fund.
 - It includes advisory fees, travel costs, registrar fees, custodian fees, etc.
 - It includes Brokerage costs for trading of Portfolio.
 - High Expense Ratio can seriously undermine the performance of a mutual fund scheme.
- (i), (ii), (iii)
 - (i), (iii)
 - only (iii)
 - only (i)

Ans. (c)

2.considers and uses downside deviation instead of total standard deviation in denominator.
- Expense Ratio
 - Sharpe Ratio
 - Treynor Ratio
 - Sortino Ratio**

Ans. (d)

BoS Knowledge Portal:

1. The lower the..... of the Index Fund, higher the accuracy the more predictable return is.

Multiple Choice Questions

- A. Alpha
 - B. Beta
 - C. **Tracking Error**
 - D. Exist Load
2. The major difference between open-ended and close-ended mutual fund schemes is that.....
- A. in Open Ended Schemes, investors can only make entry and exit during pre-specified intervals.
 - B. Close-ended schemes allow investors to redeem their investments at any time.
 - C. Open-ended schemes have a limited life, while close-ended schemes have an indefinite redemption period.
 - D. **Open-ended schemes have an indefinite redemption period, while close-ended schemes have a limited life.**
3. Which of the following Business Parks has launched India's first Real Estate Investment Trust (REIT)?
- A. Galaxy Business Parks
 - B. DLF Cyber City
 - C. Patni Knowledge Parks
 - D. **Embassy Office Parks**

DERIVATIVES ANALYSIS AND VALUATION

MTP M 26

1. In Real Options, the "option to abandon" is similar to.....
- (a) Call option
 - (b) **Put option**
 - (c) Forward contract
 - (d) Swap
2. Real options add value to a project primarily because they.....
- (a) Reduce accounting profits
 - (b) Ignore uncertainty
 - (c) **Capture managerial flexibility**
 - (d) Eliminate business risk

M 25

Mr. X, an investor buys the stocks of WBL Limited worth ₹ 21,60,000 due to very strong fundamentals. Since last 3 months, the market sentiment is weak and witnessed a significant volatility and considered to remain weak for about the next three months. Keeping in the mind volatility in the market, Mr. X is planning to hedge his portfolio in the future market. The Beta of WBL stock is 1.3 and the current value of NIFTY is 2250 and 3-months future is selling at 2310. The current market price of the WBL stock is ₹ 240. Each Nifty future can be trade in units of 240 only.

Assume there is no transaction cost and M to M Margin.

From the information given above, choose the correct answer to the question:

1. Number of future contract to be buy/sell to hedge WBL stock against expected fall in the market (rounded of contracts) -
- (a) Buy 6 future contracts

- (b) **Sell 5 future contracts**
 (c) Buy 5 future contracts
 (d) Sell 6 future contracts
2. If Nifty index fall by 10% from 2250 to 2025 and WBL stock falls to ₹ 212, what will be Net Gain/Loss if portfolio was hedged on NIFTY future?
 (a) Net Gain ₹ 3,42,000
 (b) Net Gain ₹ 3,02,100
 (c) Net Gain ₹ 50,100
 (d) **Net Gain ₹ 90,000**
3. If NIFTY index rises by 6% from 2250 to 2385 and WBL stock rises to ₹ 255, what will be Net Gain/Loss when portfolio was in hedged?
 (a) Net Loss ₹ 90,000
 (b) **Net Gain ₹ 45,000**
 (c) Net Gain ₹ 1,35,000
 (d) Net Gain ₹ 90,000

N 24

Based on the following information, choose the correct answer from the following questions:

Situation	Action	Exercise Price	Premium	Spot Price
I	Exercised	140	20	160
II	Exercised	200	15	175
III	Lapsed	300	25	400

From the information given above, choose the correct answer to the Question no. 10 to 12:

1. In situation I, the investor's position and amount of profit or loss is:
 A. Put option and ₹20
 B. Call option and ₹0
 C. Put option and ₹0
 D. Call option and ₹20
2. In Situation III, the investor's position and the amount of profit / loss is:
 A. Put option, ₹(25)
 B. Call option, ₹75
 C. Short position, ₹100
 D. Long position, ₹(100)
3. In situation II, the investor's position and the amount of profit / loss is:
 A. Put option and ₹10
 B. Call option and ₹10
 C. Put option and ₹25
 D. Call option and ₹25

Multiple Choice Questions

MTP N 24

You as an investor purchased a 4-month European Call Option on the equity shares of X Ltd. for ₹ 10, of which the current market price is ₹ 132 per share and the exercise price ₹ 150. You expect the price to range between ₹ 120 to ₹ 190. The expected share price of X Ltd. and related probability is given below:

Expected Price (₹)	120	140	160	180	190
Probability	0.05	0.20	0.50	0.10	0.15

Based on above case scenario answer the following questions:

Note: Other parts of this question were repeated from descriptive questions from the questions bank (OutScanner). Only below questions are new to learn.

1. In the given different scenarios of expected prices of share of X Ltd. at the time of maturity the option shall be in-the-money in scenarios.
 - a. two
 - b. three
 - c. five
 - d. In none of the scenario
2. In the given different scenarios of expected prices of share of X Ltd. at the time of maturity the option shall be at-the-money in scenarios.
 - a. two
 - b. three
 - c. five
 - d. In none of the scenario

BoS Knowledge Portal:

1. ABC Masala Co. purchase jeera to make its products. The company is concerned that prices may rise prior to building inventory for festivals sales. Analysts project that price per quintal could vary from Rs. 52,000 to Rs. 70,000. A September futures contract can be obtained with a Rs. 65,000 purchase prices. What is ABC's risk in this situation?
 - A. Coca prices will rise above Rs. 65,000 and Tingley will purchase its coca at a price of Rs. 65,000.
 - B. **Coca prices will decline below Rs. 65,000 and Tingley will have to purchase coca at Rs. 65,000.**
 - C. Coca prices will hit Rs. 65,000 and the contract was a waste of time.
 - D. ABC Co. has no risk in this situation.
2. Which of the following is true regarding a forward contract?
 - A. It is standardized.
 - B. The contracting parties negotiate only on the price.
 - C. The contracting parties negotiate only on quantity and quality.
 - D. **Both parties negotiate on quality, quantity, place, and price.**
3. Which of the following position provides protection from a decrease in prices of a share?
 - A. Buying of Future Contracts in the share.
 - B. Buying Call Option in the share.
 - C. **Selling of Future Contracts in the share.**
 - D. Selling Put Option in the share.

4. What is the purpose of trading in futures?
- A. Only for speculation.
 - B. Only for hedging.
 - C. **Both for speculation and hedging.**
 - D. Only for arbitraging.
5. The maximum possible loss for a covered call writer is.....
- A. Option premium.
 - B. Current price of the underlying asset.
 - C. Strike price.
 - D. **Initial investment Net of Premium.**
6. The spot price of an investment is Rs. 3,000 and the risk-free rate for all maturities (with continuous compounding) is 10% p.a.. Suppose the asset provides an income of Rs. 200 at the end of the first year and at the end of the second year, then three-year forward price shall be
($e^{0.10} = 1.1052$, $e^{0.20} = 1.2214$ and $e^{0.30} = 1.3499$)
- A. Rs. 1,967
 - B. **Rs. 3,584**
 - C. Rs. 4,515
 - D. Rs. 4,050
7. As per Real Option in Capital Budgeting any commitment to disinvest upon the action of another party is called.
- A. Long Call
 - B. Long Put
 - C. **Short Call**
 - D. Short Put
8. Which of the following is a traditional method for an Indian farmer to sell wheat?
- A. Forward Contract
 - B. Future Contract
 - C. **Spot Market**
 - D. Capital Market
9. The spot price of an investment asset that provides no income is Rs. 3000 and the risk-free rate for all maturities (with yearly compounding) is 10%. The three- year forward price of same investment shall be.....
- A. **Rs. 3,993**
 - B. Rs. 4,050
 - C. Rs. 4,020
 - D. Rs. 4,034
10. Which among the following derivative product is not traded in an exchange at all?

Multiple Choice Questions

- A. Futures
 - B. Options
 - C. **Forwards**
 - D. None of these
11. A short forward contract on share of A Ltd. that was negotiated some time ago will expire in 3 months and has a delivery price of Rs. 4,000. The current forward price for three-month forward contract is Rs. 4,200 and the 3-month risk-free interest rate (with monthly compounding) is 6%. The value of the same short forward contract will be.....
- A. Rs. 200
 - B. -Rs. 200
 - C. Rs. 197.03
 - D. **-Rs. 197.03**
12. In a future contract the term Basis is.....
- A. **The difference between the prevailing spot price and the futures price.**
 - B. The difference between the current market price and the strike price.
 - C. The difference between the long position and the short position.
 - D. The difference between the initial margin and the maintenance margin.
13. When an investor buys back the same amount of futures contracts that he sold earlier is called.....
- A. **closing out the position.**
 - B. going long of the futures.
 - C. opening a new position.
 - D. None of these
14. Which amongst the following is not a Greek for Options Pricing
- A. Delta
 - B. Gamma
 - C. Theta
 - D. **Kho**
15. A put option on a company's stock has an exercise price of Rs. 200. On the delivery date, the stock is trading at Rs. 240 per share. What should the investor who has paid Rs. 20 for the option do?
- A. **Not exercise the option and lose Rs. 20.**
 - B. Not exercise the option and lose Rs. 60.
 - C. Exercise the option and gain Rs. 20.
 - D. Exercise the option and gain Rs. 40.
16. Mr. A a speculator shorts 1000 shares of X Ltd. when the share price was Rs. 50 and closes out the position after 3 months when the share price was Rs. 43. The company pays a dividend of Rs. 3 per share during the 3 months. The gain of Mr. A will be

- A. Rs. 1,000
- B. **Rs. 4,000**
- C. Rs. 7,000
- D. Rs. 3,000

FOREIGN EXCHANGE EXPOSURE & RISK MANAGEMENT

RTP M 26

An Indian exporting firm, Radhey & Sons exported dry fruits worth of AUD 1 million to an importer in Sydney. Radhey and Sons are worried about likely depreciation of AUD in near future as it is likely that the export sum will be received after 3 months. Today as such as there is no derivative contract is available in AUD to hedge itself from such depreciation.

The following data is given:

Spot rate: ₹ 64.00/AUD

3 months interest rates (per annum):

	Deposit	Borrowing
₹	10%	12%
AUD	4%	5%

From the information given above, choose the correct answer to the following questions:

- I. In a money market hedge for a foreign currency receivable, the exporter should.....
 - (a) borrow in domestic currency and invest foreign currency
 - (b) borrow in foreign currency and invest domestic currency**
 - (c) borrow and invest in domestic currency only
 - (d) borrow and invest in foreign currency only
- II. In case Radhey & Sons adopts Money Market hedge strategy, the interest rate to be used to compute amount borrowed shall be.....
 - (a) 4% per annum
 - (b) 5% per annum**
 - (c) 10% per annum
 - (d) 12% per annum
- III. If a forward contract in AUD were available, the money market hedge would.....
 - (a) always be superior
 - (b) always be inferior
 - (c) be compared with forward hedge for cost efficiency**
 - (d) become invalid
- IV. Interest Rate Parity theory assumes.....
 - (a) No capital mobility**
 - (b) Presence of arbitrage opportunities**
 - (c) Efficient markets with no arbitrage opportunities**
 - (d) Fixed exchange rate system**

M 25

Multiple Choice Questions

ABC Ltd., a UK firm, has a receivable \$ 20 Million due in 6 months. The company wants to cover full exposure. Following information are available:

Spot rate 1\$ = £ 0.7720 / £ 0.7840

6 months forward rate 1\$ = £ 0.7910 / £ 0.8040 Interest rates are as follows:

	US	UK
6 months deposit rate	4.50% p.a.	5.50% p.a.
6 months borrowing rate	6.00% p.a.	7.50% p.a.

Following options on pound are available:

Option	Strike rate	Price
Call	£ 0.8100	£ 0.01
Put	£ 0.8100	£ 0.02

ABC Limited has forecasted the spot rates for 6 months as follows:

Future Rates of 1\$	Probability
£ 0.7800	30%.
£ 0.8100	50%
£ 0.8300	20%

From the information given above, choose the correct answer to the question:

- What will be the total expected value of option hedge in pounds, if the full exposure of 20 Million is covered?
 - £ 16.125 million
 - £ 16.50 million
 - £ 15.88 million**
 - £ 15.70 million
- If ABC Ltd. is using forward hedge strategy, what will be total proceed in pound?
 - £ 15.40 million
 - £ 15.88 million
 - £ 16.125 million
 - £ 15.82 million**
- What will be expected spot rate at the end of 6 months and expected cost (proceed) if no hedge strategy is adopted by the company?
 - £ 0.805/\$, £ 16.10 million**
 - £ 0.85/\$, £ 15.8 million
 - £ 0.7720/\$, £ 15.44 million
 - £ 0.7910/\$, £ 15.82 million
- Identify which option gives the highest proceed.
 - Option hedge
 - Forward hedge
 - Money market hedge
 - No hedge**

On 20.10.2024, the credit balance of an Indian bank in NOSTRO account with LMN Bank in London was £ 1,60,000 and the overbought position was £ 1,00,000. During the day, the following transactions have taken place:

Events	Time	Amount
DD Purchased	11:08	50,000
Purchased a bill on London	11:50	1,50,000
Sold forward TT	13:15	1,00,000
Forward purchased contract cancelled	13:55	50,000
Remitted by TT	14:45	85,000
Draft in London cancelled	15:00	40,000

Based on the above scenario, choose the most appropriate answer for the following multiple-choice questions:

Self-note: Ambiguous question

- How much was the total amount of purchase commitments made during the day by the Indian Bank?
 - £ 2,00,000
 - £ 1,50,000
 - £ 3,40,000
 - £ 50,000**
- The final cash balance in the NOSTRO account at the end of 20.10.24 stands at
 - £ 85,000
 - £ 75,000
 - £ 20,000**
 - £ 160,000
- The transaction took place atshall affect both exchange & cash position of the bank with LMN Bank.
 - 11:08
 - 11:50
 - 14:45**
 - 15:00
- If at the end of day bank is required to maintain a credit balance of £ 20,000 in the NOSTRO account, then it.....
 - shall buy forward £ 15,000
 - shall sell spot TT £ 55,000**
 - shall buy spot TT £ 55,000
 - shall sell forward £ 55,000
- If bank takes required steps to maintain a credit balance of £ 20,000 in the Nostro account, then what additional step was required to achieve the overbought position of £ 65,000?
 - Buying forward £ 15,000**
 - Selling forward £ 65,000
 - Buying forward £ 60,000
 - Selling forward £ 15,000

MTP M 24

Multiple Choice Questions

On 1 October 2023 Mr. X an exporter enters into a forward contract with a BNP Bank to sell US\$ 1,00,000 on 31 December 2023 at ₹ 85.40/\$. However, due to the request of the importer, Mr. X received the amount on 28 November 2023. Mr. X requested the bank to take delivery of the remittance on 30 November 2023 i.e., before due date. The inter-banking rates on 28 November 2023 was as follows:

Spot ₹ 85.22/85.27

One Month Premium 10/15

Note: (1) Consider 365 days in a year.

(2) Prevailing Prime Lending Rate is 12%

Based on above case scenario, choose the most appropriate answer of the following:

Note: Other parts of this question were repeated from descriptive questions from the questions bank (OutScanner). Only below questions are new to learn.

1. The bank may accept the request of customer of delivery before due date of forward contract provided the customer is ready to bear the loss if any consisting of.....
 - A. Swap Difference
 - B. Interest on Outlay of Fund
 - C. Swap Difference Plus Interest on Outlay of Fund
 - D. **Fixed Charges Plus Swap Difference and Interest on Outlay of Fund**

BoS Knowledge Portal:

1. US dollar is quoted today as: spot \$ 1 = Rs. 80 and six months forward \$1 = Rs. 84. The annualized forward margin is.....
 - A. **10%**
 - B. 5%
 - C. 3%
 - D. 6%
2.Theory substantiates that the expected disparity between the exchange rate of two currencies is approximately equal to the difference between their countries' nominal interest rates.
 - A. Interest Rate Parity
 - B. Purchasing Power Parity
 - C. **International Fisher Effect (IFE)**
 - D. None of these
3. Suppose Hari approaches a forex dealer who loads INR 1.00 margin on the interbank rate for travel related remittances. If in the interbank market the USD is quoted at INR 85.46 - 85.50 then Mr. Hari
 - A. can buy travel card at INR 84.46.
 - B. can buy travel card at INR 84.50.
 - C. can buy travel card at INR 86.46.
 - D. **can buy travel card at INR 86.50.**
4. If USD/INR spot is trading at 83.2000 and one year Swap annualized premium is trading at 6.8% then what would be the net outright rate
 - A. **77.4500**

- B. 77.5524
C. 88.4500
D. **88.8576**
5. How does a deficit in current account affect the exchange rate of a country?
A. Appreciation of home currency
B. **Depreciation of home currency**
C. No impact on the exchange rate
D. It depends on the size of the deficit
6. How can expectations affect the exchange rate of a currency?
A. **Speculators can have a substantial impact on exchange rate through speculations.**
B. The current spot/forward rates are often used to develop forecasts.
C. A combination of forecasting techniques is used to develop forecasts.
D. Historical data is used to predict future values.
7. On October 10, 2022, the Spot exchange rate is INR / USD = INR 66.2525- INR 67.5945 and the two months swap points are 125 and 195. What would be the foreign exchange rate after 2 months?
A. INR / USD = INR 66.2620 – INR 67.6070
B. INR / USD = INR 66.2400 – INR 67.5750
C. INR / USD = INR 66.2330 – INR 67.5820
D. **INR / USD = INR 66.2650 – INR 67.6140**
8. US dollar is quoted today as: spot \$ 1 = INR 80 and six months forward \$1 = INR 83.
A. This means \$ is at discount
B. This means future of rupee is uncertain
C. This means future of rupee is unclear
D. **This means \$ is at premium**
9. T & L Ltd has submitted its bid along with bid bond guarantee of its bank for Green-house gas construction project in Australia with expected cash flows spread over next 3 years. Though its pricing is very competitive, it is not sure of securing it due to other factors. But if secured, it has a huge exchange risk in the invoicing currency viz.: AUD. It can opt for the following derivative product to protect itself.
A. Forward contract
B. Futures contract
C. **Option contract**
D. Swaps
10. An Indian exporter expecting a remittance of USD 5 Million, planning to hedge his position by option contracts should.....
A. buy Call Option in USD.
B. **buy Put Option in USD.**

Multiple Choice Questions

- C. buy Call Option in INR.
D. buy Put Option in INR.
11. Combination of two fixed floating currency swaps to fixed to fixed currency swap is called?
A. Vanilla Swap
B. **Circus Swap**
C. Extendible Swap
D. Roller-Coaster Swaps
12. A Trader sold 20 lots of USD/INR in an exchange (1 lot = \$ 1000) via currency futures. He dealt at a future price of INR 78/\$ for 3 months. Currently future price is trading at INR 82/\$. The M2M (Mark to Market) of trader in the exchange shall be.....
A. INR 4000
B. INR 8000
C. **INR 80000**
D. INR 40000

INTERNATIONAL FINANCIAL MANAGEMENT

MTP M 24

A US parent company has subsidiaries in France, Germany, UK and Italy. The amounts due to and from the affiliates is converted into a common currency viz. US dollar and entered in the following matrix.

Inter Subsidiary Payments Matrix (US \$ Thousands)

		Paying affiliate				
		France	Germany	UK	Italy	Total
Receiving affiliate	France	---	80	120	200	400
	Germany	120	---	80	160	360
	UK	160	120	---	140	420
	Italy	200	60	120	---	380
	Total	480	260	320	500	1560

The treasurer of US Parent company is suggesting that by applying Multilateral Netting system the company can save a lot of transfer/ exchange costs. The company's Board agreed with Treasurer's proposal.

From the above case scenario, choose the most appropriate answer of following MCQs.

1. Before applying Multilateral Netting it is necessary to apply.....
A. Unilateral Netting
B. **Bilateral Netting**
C. Multilateral Netting
D. Interest Rate Swapping
2. Through Multinational Netting these transfers will be reduced to

- A. \$ 50,000
 - B. \$ 100,000
 - C. \$ 150,000
 - D. \$ 200,000**
3. The Net Payment/ Net Receipts for France after netting off shall be.....
- A. Net Receipt \$ 40,000
 - B. Net Payment \$ 80,000**
 - C. Net Payment \$ 40,000
 - D. Net Receipt \$ 80,000
4. The Net Payment/ Net Receipts for Italy after netting off shall be.....
- A. Net Receipt \$ 60,000
 - B. Net Payment \$ 120,000**
 - C. Net Payment \$ 60,000
 - D. Net Receipt \$ 120,000
5. Suppose if the transfer charges are 0.01% of the amount transferred then by applying multilateral netting techniques there will be reduction in overall cost of transfer by
- A. US \$ 136**
 - B. US \$ 156
 - C. US \$ 1,360
 - D. US \$ 1,560

BoS Knowledge Portal:

1. Which of the following factors are crucial in multinational capital budgeting?
 - A. Cash flows from domestic projects.
 - B. Profits remitted to the host country.
 - C. Effect of foreign exchange risk on the parent firm's cash flow.**
 - D. Changes in rates of inflation in the parent country.
2. What is the difference between evaluating a project-based cash flows and parent firms cash flows?
 - A. Evaluation based on parent firms cash flows requires competition with existing local firms.
 - B. Evaluation based on parent firms cash flows involves financial cash flows only.
 - C. Evaluation based on parent firms cash flows eliminates problems associated with fluctuating exchange rate changes.
 - D. Evaluation based on parent firms cash flows involves operating and financial cash flows.**

INTEREST RATE RISK MANAGEMENT

MTP M 26

Multiple Choice Questions

A Ltd. is planning to borrow an amount of ₹ 300 crores for a period of 3 months in the coming 6 months' time from now. The current rate of interest is 9% p.a., but it is likely to go up in 6 months' time. The company wants to hedge itself against the likely increase in interest rate.

You as CFO has been asked to suggest both traditional as well as modern methods to hedge interest rate risk.

Suppose the banker of A Ltd. has quoted the following Forward Rate Agreement (FRA) rates:

3 x 6	8.10%	8.15%
6 x 9	8.20%	8.30%
9 x 12	8.35%	8.45%

A Ltd. has already issued redeemable bonds or debentures.

From the information given above, choose the correct answer to the following questions:

- In an FRA contract, the company intending to borrow funds in future should.....
 - buy FRA at bid rate.
 - sell FRA at bid rate.
 - buy FRA at offer rate.**
 - sell FRA at offer rate.
- If interest rates rise above the FRA rate, the A Ltd. under FRA will.....
 - incur loss and pay banker.
 - neither gain nor lose.
 - receive compensation from banker.**
 - cancel the contract.
- The FRA settlement amount is discounted because.....
 - interest rates are uncertain
 - FRA is settled in advance**
 - principals are not exchanged
 - only interest differential is paid

MTP N 24

Suppose you are a risk manager at a financial institution, and your company has loaned a significant amount of ₹ 500 crore to company X Ltd. for a period of 3 years at 6-month at MCLR plus 200 bps. You are concerned about X Ltd.'s ability to repay the debt due to recent market volatility. To protect your institution from potential default, you decide to purchase a Credit Default Swap (CDS) from ABC Bank Ltd. for same notional amount at a premium quoted at 1% per year through cash settlement.

On the respective reset dates for the same period actual MCLR interest rate comes out as follows:

Reset	MCLR
1	9.75%
2	10.00%
3	10.25%
4	10.35%
5	10.50%
6	10.60%

Based on above case scenario answer the following questions:

- The primary purpose of a Credit Default Swap (CDS) is.....

- (a) to increase the value of bonds.
- (b) to protect against default risk of a debt obligation.
- (c) to provide guaranteed profit to the buyer.
- (d) to create a new form of loan.

Ans. (b)

2. Which of the following statements is true about CDS contracts?

- (a) CDS contracts cannot be used for speculation.
- (b) CDS contracts are governed by government regulations.
- (c) CDS contracts are private agreements between two parties.
- (d) CDS contracts eliminate all risks for the buyer.

Ans. (c)

3. Which organization publishes the guidelines and rules for conducting Credit Default Swap transactions?

- (a) Federal Reserve
- (b) International Swap and Derivative Association (ISDA)
- (c) Securities and Exchange Commission (SEC)
- (d) World Trade Organization (WTO)

Ans. (b)

4. Assuming no default occurs the total premium your company will pay during the designated loan period shall be.....

- (a) ₹ 5 crore
- (b) ₹ 10 crore
- (c) ₹ 15 crore
- (d) ₹ 30 crore

Ans. (c)

5. Suppose if the lender defaults somewhere in the beginning of third year of loan (after payment of interest upto 2 years) and the market value of a reference loans falls to 75% of its par value, then ABC Bank will pay your companyin a cash settlement.

- (a) ₹ 15 crore
- (b) ₹ 30 crore
- (c) ₹ 125 crore
- (d) ₹ 500 crore

Ans. (c)

BoS Knowledge Portal:

1. Which of the following contract involves the notional principal for the purpose of exchange of liabilities.

- A. Currency Swap
- B. **Plain Vanilla Swap**
- C. Forward Contract
- D. None of these

2. The primary difference between an interest rate swap contract and a forward contract can be on account of.....

- A. underlying

Multiple Choice Questions

- B. time of payment
 - C. daily marking to the market
 - D. **number of exchanges**
3. Suppose A Ltd. is entering into an interest rate swap with a notional principal of Rs. 10,00,00,000. At the beginning of the swap the initial amount of money the counterparties must exchange.....
- A. **Rs. 0**
 - B. Rs. 5,000,000
 - C. The future value of Rs.10,00,00,000
 - D. Rs. 10,00,00,000 discounted

BUSINESS VALUATION

BoS Knowledge Portal:

1.method involves valuation as per determination of the cost of group of assets and liabilities of equivalent company in the open market.
- A. Net Asset Value
 - B. Net Realizable Value
 - C. **Replaceable Value**
 - D. None of the above
2.approach attempts to identify multi-industry companies that are undervalued and would have more value if separated from each other.
- A. Economic Value Added Method
 - B. Market Value Added Method
 - C. **Chop-Shop Method**
 - D. None of the above
3. X Ltd. made a net profit of Rs. 50,00,000 and incurred expenses of Rs. 15,00,000. The number of issued Equity shares is 10,00,000. The company has a debt of Rs. 5,00,000. The market related details are as follows: $R_f = 10\%$ Market Rate of Return = 15% $\beta = 1.2$ The per share Earning Value of the company shall be.....
- A. Rs. 31.25
 - B. Rs. 21.88
 - C. **Rs. 312.50**
 - D. Rs. 218.75

MERGERS, ACQUISITIONS & CORPORATE RESTRUCTURING

MTP M 26

P Ltd. is studying the possible acquisition of Q Ltd. which is also in same industry by way of merger. The following data are available:

Firm	After-tax earnings	No. of equity shares	Market price per share	Book Value Per share
P Ltd.	₹ 10,00,000	2,00,000	₹ 75	₹ 210
Q Ltd.	₹ 3,00,000	50,000	₹ 60	₹ 105

Board of Directors of both the companies are in the process of negotiating the terms of proposed merger. In case if P Ltd. considers to buyout Q Ltd. by paying in cash, then it shall borrow the required funds @ 15% rate of interest per annum.

Both companies are in the tax bracket of 35%.

- In case P Ltd. wants to be sure that its EPS is not diminished by the merger, the relevant exchange ratio to achieve the same objective should be.....
 - 0.33
 - 1.20**
 - 1.30
 - 1.10
- The type of Merger of P Ltd. & Q Ltd. shall be
 - Horizontal Merger**
 - Vertical Merger
 - Congeneric Merger
 - Reverse Merger
- Suppose if P Ltd. is exchanging its share on one-to-one basis for Q Ltd. and post-merger there is no change in PE Ratio of any of the company then post-merger market capitalization shall be
 - ₹ 125.00 Lakh
 - ₹ 130.00 Lakh
 - ₹ 187.50 Lakh
 - ₹ 195.00 Lakh**
- Suppose if P Ltd. is offering about ₹ 35 Lakh to Q Ltd. for the proposed acquisition it will result in.....
 - EPS accretion
 - EPS dilution**
 - No Change
 - Risk free EPS
- Suppose instead of a friendly takeover, P Ltd. attempts a hostile takeover of Q Ltd. To defend itself, Q Ltd. offers substantial compensation to its managers in the event they are removed due to the takeover. This defensive tactic adopted by Q Ltd. is called.....
 - Crown Jewels
 - Poison Pill
 - White Knight
 - Golden Parachutes**

J 26

Ujwal Bank Ltd. (UBL) and Suraksha Bank Ltd. (SBL) are Scheduled Banks to merge.

UBL is strong Private Sector Bank with stable capital adequacy, while SBL has negative CRAR due to heavy NPAs

Multiple Choice Questions

Data of both the Banks in as follows:

Particulars	UBL	SBL
Book Value per share (₹)	50	25
Market Price per share (₹)	200	50
CRAR%	12	(-) 2
NPA%	2	12
No of shares in thousands	50000	20000
Price Earnings Ratio (PE Ratio)	20	10

Weights for swap ratio are Book Value per share 20%, Market Price per share 40%, CRAR (%) 20% and balance for NPA%.

From the information given above, choose the correct answer to the Question No. 10 to 12:

- The swap ratio based on information given shall be for 1 share of UBL _____ shares of SBL.
(A) 1.07
(B) 0.20
(C) 0.86
(D) 1.73
- Based on swap ratio total number of shares issued by UBL to SBL shall be _____ (in Thousands).
(A) 21,400 shares
(B) 24,000 shares
(C) 17,200 shares
(D) 4,000 shares
- Post merger Earning Per Share (EPS) of UBL shall be ₹ _____.
(A) ₹ 11.11
(B) ₹ 12.50
(C) ₹ 8.50
(D) ₹ 10.00

BoS Knowledge Portal:

- A merger that combines companies deal with the same product but in separate markets is called a.....
A. **Market extension merger.**
B. pure conglomerate merger.
C. vertical merger.
D. reverse merger.
- Which type of merger happens when two companies that have buyer-seller relationship (or potential buyer-seller relationship) come together?
A. Horizontal Merger
B. **Vertical Merger**
C. Conglomerate Merger
D. Congeneric Merger
- The general reason for a divestiture, such as a sell-off or spin-off may be.....
A. Synergy

- B. Economics of scale
- C. **Reverse synergy**
- D. None of these

STARTUP FINANCE

BoS Knowledge Portal:

1. The vendor financing in startup involves.....
 - A. borrowing funds from customer to lend funds to the company.
 - B. borrowing funds from customer to purchase products from the company.
 - C. lending funds to customer so that he can purchase products from different vendor.
 - D. **lending funds to customer so that he can purchase products from the company itself.**
2. In corporate restructuring when a company sells shares of the new company in market by making a public offer is called.
 - A. Sell off
 - B. Spin Off
 - C. Split up
 - D. **Equity Carve Outs**
3. Which among the following is not a method to approach a pitch presentation?
 - A. Introduction of the team
 - B. The market size of the product
 - C. Explaining the approach to be followed to solve a problem
 - D. **Method to be followed by the firm to bootstrap**
4. Which of the following can not be considered as a potential source of startup financing?
 - A. Bank loans
 - B. Personal financing
 - C. Crowdfunding
 - D. **Government grants**