

## PRACTICE QUESTIONS

### INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT MODULE

1. \_\_\_\_\_ would mean that no investor would be able to outperform the market with trading strategies based on publicly available information. [1 Mark]

- a) Semi strong form efficiency
- b) Weak-form efficiency
- c) Strong form efficiency
- d) None of the above

**Correct Answer: Semi strong form efficiency**

2. A company's \_\_\_\_\_ provide the most accurate information to its management and shareholders about its operations. [1 Mark]

- a) advertisements
- b) financial statements
- c) products
- d) vision statement

**Correct Answer: Financial Statements**

3. \_\_\_\_\_ fund managers try to replicate the performance of a benchmark index, by replicating the weights of its constituent stocks. [2 Marks]

- a) Active
- b) Passive

**Correct Answer: Passive**

4. Unlike term insurance, \_\_\_\_\_ ensure a return of capital to the policyholder on maturity, along with the death benefits. [1 Mark]

- a) high premium or low premium policies
- b) fixed or variable policies
- c) assurance or endowment policies
- d) growth or value policies

**Correct Answer: assurance or endowment policies**

5.  $\text{Gross Profit Margin} = \text{Gross Profit} / \text{Net Sales}$  [2 Marks]

- a) FALSE
- b) TRUE

**Correct Answer: TRUE**

6. Security of ABC Ltd. trades in the spot market at Rs. 595. Money can be invested at 10% per annum. The fair value of a one-month futures contract on ABC Ltd. is (using continuously compounded method): **[2 Marks]**

- a) 630.05
- b) 620.05
- c) 600.05
- d) 610.05

**Correct Answer: 600.05**

7. Accounts payable appear in the Balance Sheet of companies. **[2 Marks]**

- a) TRUE
- b) FALSE

**Correct Answer: TRUE**

8. A portfolio comprises of two stocks A and B. Stock A gives a return of 8% and stock B gives a return of 7%. Stock A has a weight of 60% in the portfolio. What is the portfolio return? **[2 Marks]**

- a) 9.3%
- b) 11.5%
- c) 10.2%
- d) 7.6%

**Correct Answer: 7.6%**

9. Evidence accumulated through research over the past two decades suggests that during many episodes the markets are not efficient even in the weak form. **[2 Marks]**

- a) FALSE
- b) TRUE

**Correct Answer: TRUE**

10. Mr. A buys a Put Option at a strike price of Rs. 100 for a premium of Rs. 5. On expiry of the contract the underlying shares are trading at Rs. 106. Will Mr. A exercise his option? **[3 Marks]**

- a) No
- b) Yes

**Correct Answer: NO**

11. Price movement between two Information Technology stocks would generally have a \_\_\_\_\_ co-variance. [1 Mark]

- a) zero
- b) positive
- c) negative

**Correct Answer: Positive**

12. In the case of callable bonds, the callable price (redemption price) may be different from the face value. [2 Marks]

- a) FALSE
- b) TRUE

**Correct Answer: TRUE**

13. Term structure of interest rates is also called as the \_\_\_\_\_ [2 Marks]

- a) term curve
- b) yield curve
- c) interest rate curve
- d) maturity curve

**Correct Answer: Yield Curve**

14. Each investment company is run by an \_\_\_\_\_ . [1 Mark]

- a) asset deployment company
- b) revenue management company
- c) asset management company
- d) asset reconstruction company

**Correct Answer: asset management company**

15. A \_\_\_\_\_ , is a time deposit with a bank with a specified interest rate. [1 Mark]

- a) certificate of deposit (CD)
- b) commercial paper (CP)
- c) T-Note
- d) T-Bill

**Correct Answer: certificate of deposit (CD)**

16. Prices (returns) which are not according to CAPM shall be quickly identified by the market and brought back to the \_\_\_\_\_ . [1 Mark]

- a) average

- b) standard deviation
- c) mean
- d) equilibrium

**Correct Answer: equilibrium**

17. Net acquisitions / disposals appear in the Cash Flow Statement of Companies.

**[3 Marks]**

- a) TRUE
- b) FALSE

**Correct Answer: TRUE**

18. \_\_\_\_\_ are a fixed income security.

**[1 Mark]**

- a) Equities
- b) Forex
- c) Derivatives
- d) Bonds

**Correct Answer: Bonds**

19. Investment advisory firms manage \_\_\_\_\_ .

**[1 Mark]**

- a) each client's account separately
- b) all clients accounts in a combined manner
- c) only their own money and not client's money

**Correct Answer: each client's account separately**

20. \_\_\_\_\_ measures the percentage of net income not paid to the shareholders in the form of dividends.

**[1 Mark]**

- a) Withholding ratio
- b) Retention ratio
- c) Preservation ratio
- d) Maintenance ratio

**Correct Answer: Retention ratio**

21. In a Bond the \_\_\_\_\_ is paid at the maturity date.

**[1 Mark]**

- a) face value
- b) discounted value
- c) compounded value
- d) present value

**Correct Answer: face value**

22. Banks and other financial institutions generally create a portfolio of fixed income securities to fund known \_\_\_\_\_ . **[2 Marks]**

- a) assets
- b) liabilities

**Correct Answer: liabilities**

23. Which of the following accounting statements form the backbone of financial analysis of a company? **[1 Mark]**

- a) the income statement (profit & loss),
- b) the balance sheet
- c) statement of cash flows
- d) All of the above

**Correct Answer: All of the above**

24. The balance sheet of a company is a snapshot of the \_\_\_\_\_ of the firm at a point in time. **[2 Marks]**

- a) the sources and applications of funds of the company.
- b) expenditure structure
- c) profit structure
- d) income structure

**Correct Answer: the sources and applications of funds of the company.**

25. The need to have an understanding about the ability of the market to imbibe information into the prices has led to countless attempts to study and characterize the levels of efficiency of different segments of the financial markets. **[1 Mark]**

- a) TRUE
- b) FALSE

**Correct Answer: TRUE**