

PRACTICE QUESTIONS

TREASURY MANAGEMENT MODULE

1. Treasury management is useful for: [1 Mark]
- a) Banks
 - b) Non-banking finance companies
 - c) Manufacturing companies
 - d) All of the above

Correct Answer: All of the above

2. Which of the following spreadsheet functions is to be used for calculating returns if periods are not the same? [1 Mark]
- a) IRR
 - b) XIRR
 - c) Stdev
 - d) Slope

Correct Answer: XIRR

3. Beta is a measure of: [1 Mark]
- a) Systematic risk
 - b) Non-systematic risk
 - c) Total risk
 - d) Variance

Correct Answer: Systematic risk

4. Which of the following is used only for equity investments? [1 Mark]
- a) Standard deviation
 - b) Beta
 - c) Weighted average maturity
 - d) Modified duration

Correct Answer: Beta

5. Market yields have gone up by 0.5% for comparable securities. What would be the revised price of a debt security trading at Rs105 with modified duration of 1.2? [2Mark]
- a) Rs. 105.63
 - b) Rs. 105.53
 - c) Rs. 104.37
 - d) Rs. 104.48

Correct Answer: Rs. 104.37

6. Which of the following are traded on an exchange? [1 Mark]

- a) Futures and Options
- b) Futures
- c) Options
- d) Swaps

Correct Answer: Futures and Options

7. Which of the following has an asymmetric payoff structure? [1 Marks]

- a) Futures and Options
- b) Futures
- c) Options
- d) Swaps

Correct Answer: Options

8. ABC buys an option for which the exercise price is Rs. 100 and the option premium is Rs. 5. What is the breakeven price? [2 Marks]

- a) Rs. 105
- b) Rs. 95
- c) Rs. 105 if it is a call
- d) Rs. 95 if it is a call

Correct Answer: Rs. 105

9. Off-balance sheet exposures are illegal. [1 Marks]

- a) TRUE
- b) FALSE

Correct Answer: FALSE

10. A swaption is: [1 Marks]

- a) Option to enter a swap
- b) Swap between two options
- c) Option backed by a swap
- d) Swap backed by an option

Correct Answer: Option to enter a swap

11. A company has issued 1 million shares of Rs. 10 each. They are trading in the market at Rs. 12. Reserves of the company are Rs. 4 million. The company also has not written off miscellaneous expenditure of Rs. 3 million. What is the company's net worth?

[2 Marks]

- a) Rs. 11 million
- b) Rs. 14 million
- c) Rs. 16 million
- d) Rs. 13 million

Correct Answer: Rs. 11 million

12. A company has issued 1 million shares of Rs. 10 each. They are trading in the market at Rs. 12. Reserves of the company are Rs. 4 million. The company also has not written off miscellaneous expenditure of Rs. 3 million. What should be the weightage to equity under the market value method of determining the cost of equity?

[2 Marks]

- a) Rs. 11 million
- b) Rs. 12 million
- c) Rs. 9 million
- d) Rs. 16 million

Correct Answer: Rs. 12 million

13. Each of the following is an indication of better financial strength for borrowing except:

[1 Mark]

- a) higher interest coverage ratio
- b) higher debt servicing coverage ratio
- c) higher leverage
- d) higher equity

Correct Answer: higher leverage

14. A company's cost of equity is 12%. It can borrow at 14%. If the company's target debt-equity ratio is 1.75 and tax rate is 30%, what is its weighted average cost of capital (WACC)?

[2 Marks]

- a) 13.3%
- b) 9.8%
- c) 17.15%
- d) 10.6%

Correct Answer: TRUE

15. A company has sales of Rs. 5,000 and variable costs of Rs. 3,000. If fixed costs are Rs. 300, what is its breakeven sales as a percentage of current sales?

[2 Marks]

- a) 60%
- b) 10%
- c) 20%

d) 40%

Correct Answer: 10%

16. In the above case, if fixed costs included interest of Rs. 50, what is the company's total leverage? **[1 Mark]**

a) 1.02

b) 1.05

c) 1.09

d) 1.11

Correct Answer: 1.05

17. Which of the following is most likely to have a concentrated credit risk profile?

[1 Mark]

a) Manufacturing company

b) Bank

c) Financial services company

d) Insurance company

Correct Answer: Bank

18. What is the problem with having too many loans that are not drawn down? **[1 Mark]**

a) Commitment charge may have to be paid

b) Return on capital employed is reduced

c) Current ratio is reduced

d) Income tax problems

Correct Answer: Commitment charge may have to be paid

19. Which of the following is/are a solution for commodity risk?

[1 Marks]

a) Long term supply contract

b) Commodity futures

c) Commodity options

d) All the above

Correct Answer: All the above

20. RBI has set the minimum capital adequacy for banks at:

[1 Mark]

a) 8%

b) 9%

c) 10%

d) 12%

Correct Answer: 9%

21. Which of the following is part of Tier II capital for banks? [1 Mark]

- a) Capital
- b) Revenue reserve
- c) Revaluation reserve
- d) None of the above

Correct Answer: Revaluation reserve

22. What is likely to be the most important item of liability for a retail bank? [1 Mark]

- a) Deposits
- b) Loans
- c) Overdraft
- d) Investments

Correct Answer: Deposits

23. The yield curve for India is: [1 Mark]

- a) Horizontal
- b) Upward sloping
- c) Downward sloping
- d) Vertical

Correct Answer: Upward sloping

24. Which of the following protects the investor? [1 Marks]

- a) Put
- b) Cap
- c) Call
- d) Put and Cap

Correct Answer: Put

25. Which of the following is a mandatory accounting standard? [1 Mark]

- a) as 11 and as 1
- b) AS 11
- c) AS 1
- d) AS 30

Correct Answer: as 11 and as 1