



BRAINWARE UNIVERSITY

Term End Examination 2020 - 21

Programme – Master of Business Administration

Course Name – Investment Analysis and Portfolio Management

Course Code - FM301

Semester / Year - Semester III

Time allotted : 75 Minutes

Full Marks : 60

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group-A

(Multiple Choice Type Question)

1 x 60=60

1. *(Answer any Sixty)*

(i) Which of the following is not a financial investment?

- | | |
|----------------------|--------------------------|
| a) Purchase of share | b) Purchase of Bond |
| c) Purchase of Car | d) Purchase of Debenture |

(ii) Objective of portfolio is to reduce-

- | | |
|-------------------------|---------------|
| a) Return | b) Risk |
| c) Return Uncertainties | d) Percentage |

(iii) Diversification reduces

- | | |
|-----------------------|-------------------|
| a) Interest rate risk | b) Market risk |
| c) Unique risk | d) Inflation risk |

(iv) The buying and selling activities of arbitrageur

- | | |
|---------------------------|-----------------------------|
| a) Increase profit | b) Brings equilibrium level |
| c) Creates disequilibrium | d) Reduces profit margin |

(v) An investor expects 20% return from his investment. Dividend is Rs.2 and its current market price is Rs.50. Calculate future price of stock

- | | |
|-------------|-------------|
| a) Rs.58 | b) Rs.60 |
| c) Rs.55.33 | d) Rs.63.33 |

(vi) As per constant growth model, dividend of next year is 20%. Required rate of return is 10% and growth rate is 15%. Market price will be-

- a) Rs.50
- b) Rs.55
- c) Rs.45
- d) Rs.40

(vii) The market timer is a-

- a) Professional portfolio Manager
- b) Active portfolio Manager
- c) Passive portfolio Manager
- d) None of these

(viii) Aggressive portfolio will mean

- a) 60:40
- b) 10:30
- c) 40:60
- d) 50:50

(ix) In rupee cost averaging plan when stock price is low-

- a) A prefixed amount is spent on the share
- b) Higher amount of money is allocated to shares
- c) Lower amount of money is allocated to shares
- d) More money is spent on bond

(x) The Treynor Black model is a model that shows how an investment manager can use security analysis and statistics to construct-

- a) A market portfolio
- b) A passive portfolio
- c) An active portfolio
- d) An index portfolio

(xi) Following assets are evaluated on the basis of liquidity. Most liquid among them is-

- a) Investment
- b) Cash in Hand
- c) Debtors
- d) Bills receivables

(xii) The beta of an active portfolio is 1.2. Standard deviation of the return on the market index is 20%. Non systematic variance of the active portfolio is 1%. Standard deviation of the returns on the active portfolio is-

- a) 0.0384
- b) 0.0584
- c) 0.2417
- d) 0.26

(xiii) Markowitz approach has roots in-

- a) Good portfolio management
- b) Proper entry in and exit from the market
- c) Estimation of stock return
- d) Analyzing risk and return related to stock

(xiv) Commercial papers are traded in-

- a) Money market
- b) Capital market
- c) Money market and capital market
- d) None of these

(xv) Highly liquid security is-

- a) Mutual fund units
- b) Treasury bills
- c) Shares
- d) Commercial papers

(xvi) Which one is not a money market security?

- a) T-bills
- b) NSC
- c) Certificate of deposit
- d) Commercial papers

(xvii) Clearing and settlement operation of NSE is carried out by-

- a) National security Depository Ltd.
- b) State Bank of India
- c) National security clearing co-operation
- d) By exchange itself

(xviii) The market return is 20%, riskless rate of return is 7%, Beta coefficient of the fund is 1.2. Then expected return of portfolio is-

- a) 2.5
- b) 22.6
- c) 31
- d) 24.8

(xix) Jensen's performance index gives importance

- a) To the asset combination
- b) Professional management

c) Market condition

d) Predictive ability of the manager

(xx) Thirteen week T-bill auctions are conducted __

a) Daily

b) Weekly

c) Monthly

d) Quarterly

(xxi) Voting of common stock gives minority shareholders the most representation on the Board of Directors

a) Majority

b) Cumulative

c) Rights

d) Proxy

(xxii) An investor in a T-bill earns interest by _____.

a) Receiving interest payment every 90 days

b) Receiving Dividend payments every 30 days

c) Converting T-bills at maturity into a higher valued T-notes

d) Buying a bill at a discount from face value received at maturity

(xxiii) Commercial paper is a short-term security issued by _____ to raise funds

a) Central Bank

b) Commercial Bank

c) Large companies

d) NSE stock exchange

(xxiv) Which one is not true for preference share

a) No preference in dividend payment

b) Preference in payment on liquidation

c) No voting right

d) No interest is earned

(xxv) Most favourable portfolio is proficient portfolio with the

a) Lowest Risk

b) Highest Risk

c) Highest utility

d) Least Investment

(xxvi) Ambiguity introduced by way by which organization finances its

investments is

- a) Country risk
- b) Liquidity risk
- c) Financial risk
- d) Business Risk

(xxvii) What is call?

- a) An option to sell stock at a specified price
- b) An option to buy a stock at a specified price
- c) An option to sell a stock at a specified date
- d) An option to buy stock at specified date and price

(xxviii) YTM is the single factor that makes

- a) The future value of the present cash flows from a bond equal to bond value
- b) The future value of the present cash flows equal to the future price of the bond
- c) Present value of the future cash flows of the Bond equal to the current price of the bond
- d) The future value of the bond equal to the present price

(xxix) A person has purchased treasury bills since-

- a) The returns are certain
- b) Minimum variation in the return
- c) The return is certain and the variation is nil
- d) There is assurance of full payment of principle

(xxx) The market risk beta, of a security is equal to-

- a) The covariance between the security's return and the market return divided by the variance of the markets returns
- b) The covariance between the security and market returns divided by the standard deviation of the market's returns.
- c) The variance of the security's returns divided by the covariance between the security and market returns
- d) The variance of the security 's returns divided by the variance of the market's returns

(xxxi) Dow theory is to-

- a) Identify head and shoulder patterns
- b) Identify breakaway points

c) Identify resistance levels

d) Identify long-term trends

(xxxii) If return is high then usually

a) Risk will be low

b) Risk will be high

c) Risk will be at par with other security

d) All are equally probable

(xxxiii) Bonds have Interest returns and less variability of returns

a) Variable

b) Inconsistent

c) Fixed

d) predicted

(xxxiv) What are bonds that usually pay fixed periodic interest instalments called

a) Coupon rate

b) Current income

c) Collaterals

d) Secured Bonds

(xxxv) Which one of the following bonds issue, all or part of which may be redeemed by issuing corporation under definite conditions, before the issue reaches maturity?

a) Non-callable bonds

b) Internal bonds

c) Callable bonds

d) External bonds

(xxxvi) Which of the following statement is true?

a) The callable bonds are dominant in the fixed income market

b) The government are dominant in the fixed income market

c) Non-callable bonds are dominant in the fixed-income market

d) The internal bonds are dominant in the fixed income market.

(xxxvii) Debenture which are not convertible into equity or redeemable within----- months, should be compulsorily rated by a credit rating agency for the issue to the public

a) 12

b) 4

c) 18

d) 6

(xxxviii) Which one of the following occurs due to change in the maturity of Bond

- a) Debt Instrument
- b) Interest rate Risk
- c) Liquidity Risk
- d) Price changes

(xxxix) A person has purchased two shares X and Y. It will eliminate risk if

- a) $r=+0.2$
- b) $r=-1$
- c) $r=0$
- d) $r=0.1$

(xl) With the rise in interest rate, price of preferred stock

- a) is not affected
- b) rises
- c) falls
- d) may rise or fall

(xli) If the rate of interest on a monthly recurring deposits account carrying an interest rate of 12% p.a. with a duration of 2 years, the appropriate compounding factor for calculating the maturity would be-

- a) $FVAF(1\%,24)$
- b) $FVAF(12\%,2)$
- c) $FVIF(12\%,2)$
- d) $PVCAF(1\%,24)$

(xlii) Is defined as a series of constant periodic cash flows which continues for an indefinite time period.

- a) Discounting
- b) Compounding
- c) Annuity
- d) Perpetuity

(xliii) Which of the following is not a pre-requisite for a perfectly developed financial market?

- a) Low transaction Costs.
- b) High information Asymmetry
- c) Large number of intermediaries
- d) Free entry and exit.

(xliv) Which of the following route/s is/are adopted by RBI to control interest rates in an economy?

- a) Open Money Market operations
- b) CRR and SLR
- c) Bank Rate
- d) All of these

(xlv) Is a contract between two parties whose value is derived from an underlying asset and the delivery is on a future predetermined date,

- a) Mutual fund
- b) Derivative
- c) Life Insurance
- d) Fixed deposits

(xlvi) A market wher a company goes to the public for the first time to raise long term equity is known as-

- a) Bonus offer
- b) Right offer
- c) Stock split
- d) Initial Public Offering

(xlvii) Controller of Capital issues function was to monitor and regulate capital market. It has been replaced by-

- a) NSE
- b) RBI
- c) SEBI
- d) CRISIL

(xlviii) is a process through which demand for equity shares proposed to be issued is solicited through a “Red Herring Prospectus” using a price band comprising ceiling and floor price.

- a) Book building process
- b) Green Shoe Option
- c) Listing
- d) Share Buyback

(xlix) Which of the following is an advantage of listing?

- a) Excessive speculation
- b) Disclosed vital information
- c) Real time valuation
- d) Fear of take over

(l) A dollar denominated deposit at a London bank is called _

- a) EURO DOLLAR
- b) LIBOR
- c) FED FUND
- d) Banker’s Acceptance

(li) What is the tax exempt equivalent yield on a 9% bond yield given a marginal tax rate of 28%

- a) 0.0648
- b) 0.0725
- c) 0.08019999999999999
- d) 0.09

(lii) A typical bond price quote includes all but one of the following.

- a) Daily high price of bond
- b) Closing price of bond
- c) YTM
- d) Dividend yield

(liii) Features of equity share does not include

- a) Residual claimant
- b) Unlimited liability
- c) Voting right
- d) Unlimited life of the security

(liv) Financial assets-

- a) Contributes to the country's productive capacity
- b) Do not contribute to the country's productive capacity
- c) Directly Contributes to the country's productive capacity
- d) Indirectly contribute to the country's productive capacity

(lv) Which one of the following statements regarding open-end mutual funds is false?

- a) The funds redeem shares at net asset value
- b) The funds offer investors professional management
- c) The funds redeem shares at net asset value and The funds offer investors professional managemen
- d) None of these

(lvi) Which one of the following statements regarding closed-end mutual funds is false?

- a) The funds always trade at a discount from NAV.
- b) . The funds redeem shares at their net asset value
- c) The funds redeem shares at their net
- d) The funds offer investors diversification

asset value

(lvii) Which of the following statements regarding risk-averse investors is true?

- a) They only accept risky investments that offer risk premiums over the risk-free rate.
- b) They accept investments that are fair games.
- c) They only care about rate of return.
- d) They are willing to accept lower returns and high risk

(lviii) Consider a graph with standard deviation on the horizontal axis and expected return on the vertical axis. The line that connects the risk-free rate and the optimal risky portfolio is called:

- a) the characteristic line.
- b) the security market line
- c) the capital market line
- d) the indifference curve

(lix) Market risk is also called:

- a) nondiversifiable risk and systematic risk.
- b) systematic risk and unique risk.
- c) systematic risk and diversifiable risk
- d) unique risk and nondiversifiable risk.

(lx) Suppose you estimate the characteristic line for Stock X. You find that the standard deviation of X's error term is 7%, X's beta is 1.4, and the standard deviation of the market is 12%. What is the total standard deviation for Stock X?

- a) 0.158
- b) 0.305
- c) 0.19
- d) None of these