MCQ Set 1

QUESTION NO.1: A safety mutual fund that had a net asset value of ' 20 at the beginning of a month, made income and capital gain distribution of '0.06 and ' 0.04 respectively per unit during the month and then ended the month with a net asset value of ' 20.25. The monthly return is: **(A)**2.25% **(B)** 1.75% **(C)**1.25% **(D)**1.65%

QUESTION NO.2: Mr. Ravi is planning to purchase the shares of X Ltd. which had paid a dividend of ' 2 per share last year. Dividends are growing at a rate of 10%. What price would Mr. Ravi be willing to pay for X Ltd.'s shares if he expects a rate of return of 20%? **(A)**'22 **(B)**'24 **(C)**'20 **(D)**'21

QUESTION NO.3: The spot price of securities of X Ltd. is '160. With no dividend and no carrying cost, compute the theoretical forward price of the securities for 1 month. You may assume a risk free interest rate of 9% p.a.
(A)'160 **(B)**'162.75 **(C)**'161.20 **(D)**'159.20

QUESTION NO.4: It is given that '/£ quote is '94.30 – 95.20 and that '/$ quote is 66.25 – 66.45. What would be the $/£ quote? **(A)**1.42:1.44 **(B)**1.44:1.42 **(C)**1.44:1.52 **(D)**1.52:1.44

QUESTION NO.5: When are call options and put options said to be 'in the money' in the futures market?
(A) In call options when strike price is above the price of underlying futures, call option is'in the money'. In put options, when the strike price is below the price of underlying futures put option 'is in the money'.
(B) In call options when strike price is below the price of underlying futures, call option is'in the money'. In put options, when the strike price is above the price of underlying futures put option 'is in the money'.
(C) None of the above **(D)** Both the above.

QUESTION NO.6: A firm has an equity beta of 1.40 and is currently financed by 25% debt and 75% equity. What will be the company's equity beta if the company changes its financing policy to 33% debt and 67% equity? [Assume corporate tax at 35% and zero debt beta] **(A)**1.62 **(B)**1.72 **(C)**1.42 **(D)**1.52

QUESTION NO.7: XYZ Ltd. has a uniform income that accrues in a 4-year business cycle. It has an average EPS of ' 20 (per share of ' 100) over its business cycle. Find out the cost of equity capital, if market price is ' 175.
(A)11.43% **(B)**12.43% **(C)**10.43% **(D)**13.43%

QUESTION NO.8: **Calculate Sharpe ratio from the following information** :
Return - 13 ; Risk (ó) - 16 ; Beta (â) - 0.90 ; Risk free rate - 10 **(A)**0.18 **(B)**0.16 **(C)**0.19 **(D)** 0.17

QUESTION NO.9: **Compute the theoretical forward price** of the following security for 6 months :
Spot Price (Sx) - '160 ; Risk free interest rate - 9% ; [Given: $e^{0.045}$ = 1.046028]
(A)'168.3645 **(B)**' 167.3645 **(C)**'166.3645 **(D)**'165.3645

QUESTION NO.10: A project had an equity beta of 1.3 and was going to be financed by a combination of 30% debt and 70% equity. Assuming debt-beta to be zero, calculate the project beta and return from the project taking risk free rate of return to be 10% and return on market portfolio of 18%.
(A) 14.28% **(B)** 17.28% **(C)** 15.28% **(D)** 16.28%

MCQ Set 2

QUESTION NO.1: X Ltd. issued ' 100, 12% Debentures 5 years ago. Interest rates have risen since then, so that debentures of the company are now selling at 15% yield basis. What is the current expected market price of the debentures? **(A)** ' 75 **(B)**' 80 **(C)** ' 90 **(D)** ' 85

QUESTION NO.2: **Given:**

	Last year	Current year
Sales unit	2,000	2,800
Selling price per unit	' 10	' 10
EPS	' 9.60	' 38.40

What is the Degree of Combined Leverage? **(A)** 6-5 **(B)**5-6 **(C)** 7-5 **(D)** 5-7

QUESTION NO.3: MI Ltd. has annual sales of ' 365 lacs. The company has investment opportunities in the money market to earn a return of 15% per annum. If the company could reduce its float by 3 days, what would be the increase in company's total return? (Assume 1 year = 365 days) **(A)** ' 45,000 **(B)**' 40,000 **(C)** ' 54,000 **(D)** '46,000

QUESTION NO.4: In the inter-bank market, the DM is quoting ' 21-50. If the bank charges 0.125% commission for TT selling, what is the TT selling rate? **(A)** 21-47 / DM **(B)**' 21-53 / DM **(C)** 22-78 / DM **(D)** ' 23-45 / DM

QUESTION NO.5: The required rate of return on equity is 24% and cost of debt is 12%. The company has a capital structure mix of 80% of equity and 20% debt. What is the overall rate of return, the company should earn? Assume no tax. **(A)** 21-6% **(B)**14-4% **(C)** 18-6% **(D)** 17-22%

QUESTION NO.6: **Consider the following quotes:**
Spot (Euro/Pound) = 1.6543 / 1.6557; Spot (Pound / NZ's) = 0.2786 / 0.2800
Calculate the % spread on the Euro/Pound Rate. **(A)** 0.0805% **(B)** 0.0080% **(C)** 0.8501% **(D)** 0.0850%

QUESTION NO.7: Initial Investment ' 20 lakh. Expected annual cash flows ' 6 lakh for 10 years. Cost of capital @ 15%. **What is the Profitability Index?** The cumulative discounting factor @ 15% for 10 years = 5.019.
(A) 1.51 **(B)** 1.15 **(C)** 5.15 **(D)** 0.151

QUESTION NO.8: **The following details relate to an investment proposal of XYZ Ltd.**
Investment outlay— ' 100 lakhs ; Lease Rentals are payable at ' 180 per ' 1,000 ; Term of lease—8 years Cost of capital—12%. What is the present value of lease rentals, if lease rentals are payable at the end of the year? [Given PV factors at 12% for years (1-8) is 4.9676. **(A)** ' 98,14,680 **(B)**' 89,41,680 **(C)** 94,18,860 **(D)** ' 96,84,190

QUESTION NO.9: An investor wrote a naked call option. The premium was ' 2.50 per share and the market price and exercise price of the share are ' 37 and ' 41 respectively. The contract being for 100 shares, what is the amount of margin under First Method, that is required to be deposited with the clearing house?
(A) 590 **(B)**'250 **(C)** ' 740 **(D)** ' 400

QUESTION NO.10: An investor buys a call option contract for a premium of ' 200. The exercise price is ' 20 and the current market price of the share is ' 17. If the share price after three months reaches ' 25, what is the profit made by the option holder on exercising the option? Contract is for 100 shares. Ignore the transaction charges.
(A) 290 **(B)**'250 **(C)** ' 300 **(D)** ' 400

MCQ Set 3

QUESTION NO.1: Unlevered beta and effective tax rate of S Ltd is 0.8 and 35 percent respectively. The company intends to undertake a project with 60 percent debt financing. Assuming risk free rate of 7.5 % and market premium 8 %, **calculate cost of equity** (rounded up to two decimal points)
(A) 13.90% **(B)** 20.14% **(C)** 16.40% **(D)** none of (A), (B) or (C)

QUESTION NO.2: The spot and 6 months forward rates of US $ in relation to the rupee('/$) are '40.9542 / 41.1255 and '41.8550 / 9650 respectively. **What will be the annualized forward margin**(premium with respect to Bid Price)? **(A)** 4.10% **(B)** 4.40% **(C)** 4.50% **(D)** None of (A), (B) or (C)

QUESTION NO.3: A mutual Fund had a Net Asset Value (NAV) of '72 at the beginning of the year. During the year, a sum of '6 was distributed as Dividend besides ' 4 as Capital Gain distributions. At the end of the year, NAV was ' 84. **Total return for the year is** : **(A)** 30.56% **(B)** 31.56% **(C)** 40.56% **(D)** 41.56%

QUESTION NO.4: The standard deviation of Greaves Ltd. Stock is 24% and its correlation coefficient with market portfolio is 0.5. The expected return on market is 16% with the standard deviation of 20%. If the risk free return is 6%, **what will be the required rate of return on Greaves Ltd. Script?** **(A)** 12% **(B)** 11% **(C)** 13% **(D)** 11.5%

QUESTION NO.5: Your customer requests you to book a sale forward exchange contract for US $ 2 million delivery 3rd month. The quotes are: Spot US $ 1= '48.050/0.060 1month margin= 0.0850/.0900 ; 2 month margin=0.2650/ 0.2700 ; 3 month margin=0.5300/0.5350 ; You are required to make an exchange profit of 0.125%. Ignore telex charges and brokerage. **(A)** '120000 **(B)** '230000 **(C)** '75000 **(D)** '100000

QUESTION NO.6: The Sterling is trading at '1.6100 today. Inflation in UK is 4%and that in USA is 3%. What could be spot rate($/£) after 2 years? **(A)** 1.5792 **(B)** 1.5892 **(C)** 1.5992 **(D)** 1.5939

QUESTION NO.7: The capital structure of a company is as under: 300000 Equity shares of '10 each ; 32000, 12% Preference shares of '100 each General Reserve '1500000 ; Securities Premium Account '500000 ; 25000, 14% Fully Secured Debentures of '100 each Term Loan of '1300000. Based on these, the leverage of the company is: **(A)** 60.22% **(B)** 58.33% **(C)** 55.21% **(D)** 62.10%

QUESTION NO.8: Historically, when the market return changed 10%, the return on stock of Arihant Ltd changed by 16%. If variance of market is 257.81, what would be the systematic risk for Arihant Ltd?
(A) 320% **(B)** 480% **(C)** 660% **(D)** Insufficient information.

QUESTION NO.9: The beta co-efficient of equity stock of ARISTO LTD is 1.6. The risk free rate of return is 12% and the required rate of return is 15% on the market portfolio. If dividend expected during the coming year '2.50 and the growth rate of dividend and earnings is 8%, at what price the stock of ARISTO LTD. Can be sold (based on CAPM)? **(A)** '12.50 **(B)** '16.80 **(C)** '28.41 **(D)** Insufficient Information.

QUESTION NO.10: The ratio of current assets ('3,00,000) to current liabilities ('2,00,000) is 1.5 : 1. The accountant of this firm is interested in maintaining a current ratio of 2 : 1 by paying some part of current liabilities. Hence, the amount of current liabilities which must be paid for this purpose is :
(A) '1,00,000 **(B)** '2,00,000 **(C)** ' 2,50,000 **(D)** ' 1,50,000

MCQ Set 4

QUESTION NO.1: Dividend-Payers Ltd. has a stable income and stable dividend policy. The average annual dividend payout is ' 27 per share (Face Value = '100). You are required to find out: Dividend payout in year 2, if the company were to have an expected market price of '160 per share at the existing cost of equity. [The market price in year 1 is ' 150] **(A)** '28.88 **(B)** ' 26.86 **(C)** '28.80 **(D)** ' 26.98

QUESTION NO.2: The interest rate in Germany is 11 per cent and the expected inflation rate is 5 per cent. The British interest rate is 9 per cent. How much is the expected inflation rate in Britain?
(A) 3.0%` **(B)** 3.1% **(C)** 4.5% **(D)** 2.9%

QUESTION NO.3: A project had an equity beta of 1.2 and was going to be financed by a combination of 30% debt and 70% equity (assume debt beta = 0). Hence, the required rate of return of the project is (assume Rf = 10% and Rm =18%) **(A)** 16.27% **(B)** 17.26% **(C)** 16.72% **(D)** 12.76%

QUESTION NO.4: **Consider the following quotes.**
Spot (Euro / Pound) = 1.6543 / 1.6557 Spot (Pound / NZ$) = 0.2786 / 0.2800
Calculate the % spread on the Euro/Pound Rate. **(A)** 0.085% **(B)** 0.0085% **(C)** 0.85% **(D)** 0.00085%

QUESTION NO.5: A company has expected Net Operating Income – ' 2,40,000; 10% Debt – '7,20,000 and Equity Capitalisation rate - 20% what is the weighted average cost of capital for the company?
(A) 0.15385 **(B)** 0.13585 **(C)** 0.18351 **(D)** 0.15531

QUESTION NO.6: The price of Swedish Krones is $ 0.14 today. If it appreciates by 10% today, how many Krones a dollar will buy tomorrow? **(A)** 6.49351 **(B)** 4.69351 **(C)** 3.49513 **(D)** 5.64913

QUESTION NO.7: A firm has sales of '75,00,000 variable cost of '42,00,000 and fixed cost of '6,00,000.It has a debt of '45,00,000 at 9% interest and equity of '55,00,000. At what level of sales, the EBIT of the firm will be equal to zero? **(A)** '28,48,500 **(B)** '28,84,500 **(C)** '22,84,500 **(D)** '26,48,500

QUESTION NO.8: E Limited has earnings before interest and taxes (EBIT) of ' 10 million at a cost of 7%., Cost of equity is 12.5%. Ignore taxes. What is the overall cost of capital?
(A) 11.26% **(B)** 11.62% **(C)** 16.12% **(D)** 12.61%

QUESTION NO.9: The **following various currency quotes are available** from the State Bank of India:
'/£ 81.31 / 81.33 : £ / $ 0.6491 / 0.6498 : $ / ¥ 0.01098 / 0.01102
The rate at which yen(¥) can be purchased with rupees will be: **(A)** 1.5270 **(B)** 1.5890 **(C)** 0.5824 **(D)** 0.7824

QUESTION NO.10: The dollar is currently trading at ' 40. If rupee depreciates by 10%, what will be the spot rate?
(A) ' 0.0525 **(B)** ' 0.0552 **(C)** ' 0.0225 **(D)** ' 0.0522

MCQ Set 5

QUESTION NO.1: You are a forex dealer in India. Rates of rupee and Euro in the international market are US $ 0.01962905 and US $ 1.335603 respectively. What will be your direct quote of € (euro) to your customer?
(A) ' 69.5900 **(B)** ' 68.0420 **(C)** ' 65.1010 **(D)** ' 70.905

QUESTION NO.2: Marison Ltd. is planning to invest in USA. The rates of inflation are 8 % in India and 3 % in USA. If spot rate is currently '46.50/$, what spot rate can the company expect after 5 years?
(A) '57.93/$ **(B)** '58.94/$ **(C)** '59.00/$ **(D)** '59/.13/$

QUESTION NO.3: The Beta co-efficient of equity stock of ECOBOARD LTD. Is 1.6. The risk free rate of return is 12% and the required rate of return is 18% on the market portfolio. If dividend expected during coming year is '2.50 and the growth rate of dividend and earnings is 8%, at what price the stock of ECOBOARD ltd. Can be sold (based on CAPM)? **(A)** '18.38 **(B)** '15.60 **(C)** '12.50 **(D)** None of the above

QUESTION NO.4: The spot USD/Yen=190 Yen and one year forward rate of USD/Yen =210Yen. The prime rate in US is 15%. What should be Japanese prime rate be? **(A)** 20.11% **(B)** 25.22% **(C)** 27.11% **(D)** 29.55%

QUESTION NO.5: Which of the following investment avenues has the least risk associated with it?
(A) Corporate fixed deposits **(B)** Deposits in commercial banks
(C) Public Provident Fund **(D)** Non convertible zero coupon bond.

QUESTION NO.6: **Consider the following data:** Rate of inflation=5.1% Beta=0.85 ; Real rate of return=4.2% Market return=12.6% ; The risk premium for the above security will be:

(A) 2.5% **(B)** 2.65% **(C)** 2.805% **(D)** 2.95%

QUESTION NO.7: Covariance between a stock and a market index and variance of market index are 33.56 and 19.15 respectively. The Beta of stock is: **(A)** 1.55 **(B)** 1.75 **(C)** 1.85 **(D)** 1.95

QUESTION NO.8: The face value of a 364 day T-Bill is '100. If purchase price is'86, then the yield on such a bill is

(A) 12.5% **(B)** 13.36% **(C)** 16.32% **(D)** 6.56%

QUESTION NO.9: A company has obtained quotes from two different manufacturers for an equipment.

The details are as follows:

Product	Cost (Million)	Estimated life (years)
Make X	4.50	10
Make Y	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper? The company's cost of capital is 10%. [Given: PVIFA (10%, 10 years) = 6.1446 and PVIFA (10%, 15 years) = 7.6061]

(A) Make X will be cheaper **(B)** Make Y will be cheaper

(C) Cost will be the same **(D)** None of the above

QUESTION NO.10: The stock of ABC Ltd sells for ' 240. The present value of exercise price and value of call option are '217.40 and ' 39.60 respectively. What is the value of put option?

(A) ' 16.50 **(B)** ' 22.00 **(C)** '17.00 **(D)** '18.00

MCQ Set 6

QUESTION NO.1: An investor buys a call option contract for a premium of ' 200. The exercise price is ' 20 and the current market price of the share is ' 17. If the share price after three months reaches ' 25, what is the profit made by the option holder on exercising the option? Contract is for 100 shares. Ignore the transaction charges.

(A) ' 200 **(B)** ' 250 **(C)** ' 300` **(D)** ' 350

QUESTION NO.2: One year euro interest rate is 3% (compounded quarterly); One year rupee interest rate is 6 % (compounded quarterly); The forward six months exchange rate is '58.82 / euro. According to interest rate parity, the spot exchange rate is: **(A)** '57.96 **(B)** '58.10 **(C)** '58.60 **(D)** None of the above

QUESTION NO.3: ANGEL LTD, an export customer who relied on the inter bank rate of Rs. / $ 46.50 / 10 requested his banker to purchase a bill for USD 80000. What is the rate to be quoted to ANGEL LTD if the banker wants a margin of 0.08? **(A)** '46.40 **(B)** '46.46 **(C)** '46.60 **(D)** None of the above.

QUESTION NO.4: The net profit margin, total assets turnover ratio and total assets to networth of a company are 5%, 1.5 and 2.0 respectively. The ROE of the company will be: **(A)** 5% **(B)** 15% **(C)** 7.5% **(D)** 10%

QUESTION NO.5: **Following information is available regarding a mutual fund:**

Return : 13 : Risk (S.D.) 16 : Beta : 0.90 : Risk free rate : 10 ; Sharpe ratio and Treynor's ratio are:

(A) 0.17, 3.33 **(B)** 0.10, 3.33 **(C)** 0.25, 3.33 **(D)** 0.19, 3.33

QUESTION NO.6: **Calculate P/E ratio,** if dividend payout ratio is 55%, ROE is 16% and the required rate of return is 14%. **(A)** 8.09 **(B)** 8.64 **(C)** 9.12 **(D)** 9.45

QUESTION NO.7: The co-efficient of co-relation between returns of SPARK LTD and SENSEX is 1.10. The expected returns on the stock of Spark and Sensex are 18% and 14.37% respectively. The return on 182 day T –Bill is 6.31%. What would be standard deviation of the returns of Spark if the standard deviation of Sensex's return is 17%
(A) 20.12% **(B)** 22.41% **(C)** 26.46% **(D)** Insufficient data.

QUESTION NO.8: The stock is currently selling at '270. The call option to buy the stock at '265 costs '12. What is the Time Value of the option? **(A)** '13 **(B)** '5 **(C)** '17 **(D)** '7

QUESTION NO.9: The spot Value Of Nifty is 4430. An investor bought a one month Nifty for 4410 call option for a premium of '12. The option is: **(A)** In the money **(B)** At the money **(C)** Out of the money **(D)** Insufficient data.

QUESTION NO.10: LEENZA LTD. Currently pays a dividend of '4 per share that is expected to grow at rate of 10% for the next year after which it is expected to grow at rate of 7% forever. What value would you place on the stock of this company if a rate of 15% return is required? (Round off your answer to the nearest integer).(Given PVIF(15% 1 year=0.8696) **(A)** '53.05 **(B)** '55.00 **(C)** '58.10 **(D)** None of the above.

MCQ Set 7

QUESTION NO.1: **Given that** the strike price is '240, the current stock price is '225, and risk-free interest rate is 5% p. a., calculate the theoretical minimum price of a put option after 6 months.
(A) 9.07 **(B)** 10.07 **(C)** 11.07 **(D)** 12.07

QUESTION NO.2: An investor holds two equity shares A and B in equal proportion with the following risk and return: $E(R_A) = 26\%$; $S.D._A = 20\%$; $E(R_B) = 22\%$; $S.D._B = 24\%$
The returns of these securities have a positive correlation of 0.7. **Calculate the portfolio return and risk.**
(A) 25% (expected return), 29% risk **(B)** 24% (expected return), 30% risk
(C) 24% (expected return), 20.30% risk **(D)** 25% (expected return), 20.30% risk

QUESTION NO.3: The foreign exchange market prices for US dollar ($) against Indian rupees (') are quoted as under:

	Buying	**Selling**
Spot	65.30	65.50
Three months' forward	66.35	67.20

Calculate the cost of the forward cover. **(A)** 8.33% **(B)** 8.22% **(C)** 8.11% **(D)** 8.00%

QUESTION NO.4: S invested in a mutual fund when the NAV was '13.50 per unit. 90 days later, the NAV was '12.45 per unit. During the period S got a cash dividend of '1.25 per unit and capital gain distribution of ' 0.25. **Calculate the annualized return.** **(A)** 16.51% **(B)** 15.51% **(C)** 14.51% **(D)** 13.51%

QUESTION NO.5: Presently, the company's share price is ' 120. After 6 months, the price will be either '150 with a probability of 0-8 or ' 110 with a probability of 0-2. A European call option exists with an exercise price of ' 130. What will be the expected value of call option at maturity date? **(A)** ' 20 **(B)** ' 16 **(C)** ' 18 **(D)** '10

QUESTION NO.6: **Consider the following quotes:**
Spot (Euro/Pound) = 1-3904 — 1-3908 Spot (Pound/NZ $) = 0-5020 — 0-5040
What will be the possible % spread on the cross rate between Euro and NZ $?
(A) 0.40 **(B)** 0.39 **(C)** 0.41 **(D)** 0.43

QUESTION NO.7: A project had an equity beta of 1.4 and was going to be financed by a combination of 25% Debt and 75% Equity (Assume Debt Beta as zero). Hence, the required rate of return of the project is (Assume Rf = 12% and Rm = 18%). **(A)** 16.72% **(B)** 18.30% **(C)** 17.45% **(D)** 12.00%

QUESTION NO.8: Given for a project: Annual Cash inflow '80,000 Useful life 4 years Pay-Back period 2.855 years What is the cost of the project? **(A)** ' 2,28,500 **(B)** ' 2,28,400 **(C)** ' 2,28,600 **(D)** ' 2,28,700

QUESTION NO.9: Government securities are free from:
(A) Default risk **(B)** Purchasing power risk **(C)** Interest rate risk **(D)** Re-investment risk

QUESTION NO.10: Beta of a security measures its
(A) Diversifiable risk **(B)** Market risk **(C)** Financial risk **(D)** None of the above.

MCQ Set 8

QUESTION NO.1: A mutual Fund had a Net Asset Value (NAV) of '72 at the beginning of the year. During the year, a sum of '6 was distributed as Dividend besides ' 4 as Capital Gain distributions. At the end of the year, NAV was ' 84. Total return for the year is: **(A)** 33.65% **(B)** 30.56% **(C)** 32.65% **(D)** 31.46%

QUESTION NO.2: **The following two types of securities are available in the market for investment**

	Security Return %	Standard Deviation%
Gilt-edge Security	7	0
Equity	25	30

Using the above two securities, if you are planning to invest '1,00,000 to construct a portfolio with a standard deviation of 24%, what is the return of such portfolio? **(A)** 21700 **(B)** 21600 **(C)** 21500 **(D)** '21400

QUESTION NO.3: A characteristic line is formed by regressing
(A) Stock prices with market index **(B)** Beta with required rate of return
(C) Standard deviation with required rate of return **(D)** Stock returns with market returns

QUESTION NO.4: Which of the following is not a source of systematic risk?
(A) Market risk **(B)** Interest rate risk **(C)** Purchasing power risk **(D)** Financial risk

QUESTION NO.5: A Call Option at a strike price of ' 280 is selling at a premium of '23. At what share price on maturity will it break-even for the buyer of the option? **(A)**'303/- **(B)**'257/- **(C)**'300/- **(D)**'280/-

QUESTION NO.6: **Consider the following quotes:** Spot (Euro/Pound) = 1.6543 / 1.6557 ; Spot (Pound/NZ's) = 0.2786 / 0.2800. **(A)**0.0805% **(B)**0.0080% **(C)**0.8501% **(D)**0.0850%

QUESTION NO.7: Initial Investment '20 lakh. Expected annual cash flows '6 lakh for 10 years. Cost of capital @15%. **What is the Profitability Index?** The cumulative discounting factor @ 15% for 10 years = 5.019.
(A) 1.51 **(B)** 1.15 **(C)** 5.15 **(D)** 0.151

QUESTION NO.8: The following details relate to an investment proposal of XYZ Ltd. ; Investment outlay— ' 100 lakhs ; Lease Rentals are payable at ' 180 per ' 1,000 ; Term of lease—8 years ; Cost of capital—12%
What is the present value of lease rentals, if lease rentals are payable at the end of the year? [Given PV factors at 12% for years (1-8) is 4.9676. **(A)**' 98,14,680 **(B)** ' 89,41,680 **(C)**' 94,18,860 **(D)**' 96,84,190

QUESTION NO.9: Following information is available regarding a mutual fund: Return : 13 ; Risk : 16 ; Beta - 0.90 ; Risk free rate- 10; **Calculate Sharpe Ratio.** **(A)** 0.18 **(B)** 0.19 **(C)** 0.20 **(D)**0.21

QUESTION NO.10: A project had an equity beta of 1.3 and was going to be financed by a combination of 30% debt and 70% equity. Assuming debt-beta to be zero, calculate the project beta and return from the project taking risk

free rate of return to be 10% and return on market portfolio of 18%.
(A)17.28% **(B)**18.28% **(C)**19.28% **(D)** 16.28%

MCQ Set 9

(A) Choose the correct option among four alternative answer.

QUESTION NO.1: The dividend decisions are concerned with:
(A) determination of quantum of profits to be distribute to the owners **(B)** the frequency of such payments
(C) the amounts to be retained by the firm **(D)** all of the above

QUESTION NO.2: The shares of B Ltd. are trading at '370. If put option with a strike price of '380 are priced at '20, the intrinsic value and time value of the options respectively are:
(A) ' 8, ' 8 **(B)** ' 10, ' 10 **(C)** ' 8, ' 10 **(D)** Incomplete information

QUESTION NO.3: The dollar is currently trading at '40. If rupee depreciates by 10%, what will be the spot rate?
(A) '0.0525 **(B)** '0.0552 **(C)** '0.0225 **(D)** '0.0522

QUESTION NO.4: A company issue commercial paper for ' 3 crores with a maturity period of 90 days. The interest rate is 11% p.a. The net amount received by the company will be :
(A) '2.94 crores **(B)** '2.92 crores **(C)** '2.85 crores **(D)** '3.08 crores

QUESTION NO.5: The NAV of each unit of a close-end fund at the beginning of the year was '18. By the end of the year its NAV equals '18.50. At the beginning of the year each unit was selling at a 2% premium to NAV and by the end of the year each unit is selling at a 4% discount to NAV. If the closed-end fund paid year end distribution of income of '2.50 on each unit,the rate of return to the investor in the fund during the year would be
(A) 10.35% **(B)** 11.51% **(C)** 11.95% **(D)** None of the above

QUESTION NO.6: The face value of a 364-day T-bill is '100. If the purchase price is '86 then the yield on such a bill is **(A)** 12.45% **(B)** 13.36% **(C)** 16.32% **(D)** 16.56%

QUESTION NO.7: A financial lease is preferred in the situation:
(A) when the long-term stability of asset is uncertain
(B) When the lessee want to own the asset but does not have enough funds to invest
(C) when the asset is subject to rapid obsolescence **(D)** none of the above

QUESTION NO.8: About 50 items are required every day for a machine. A fixed cost of ' 50 per order is incurred for placing an order. The inventory carrying cost per item amounts to ' 0.02 per day. The lead period is 32 days. Compute reorder level. **(A)** 1,200 items **(B)** 1,400 items **(C)** 1,600 items **(D)** 1,800 items

QUESTION NO.9: ABC Ltd. has a debt-equity mix of 30/70. If ABC Ltd.'s debt beta for its activity (or projects) is 1.21, what is the beta for its equity ? **(A)** 1.65 **(B)** 1.60 **(C)** 1.52 **(D)** None of the above

QUESTION NO.10: An Indian company is planning to invest in US. The US inflation rate is expected to be 3% and that of India is expected to be 8% annually. If the spot rate currently is ' 45/ US$, what spot rate can you expect after 5 years ? **(A)** '59.09/US$ **(B)** '57.00/US$ **(C)** '57.04/US$ **(D)** '57.13/US$

(B) State if each of the following sentences is T (=true) or F (= false):

(i) Risk under transaction exposure can be minimized using Money Market Hedge.

(ii) Flexibility is one among the performance indicators of the organisation.
(iii) Swapping from fixed to floating may save the original borrower if interest rates decline.
(iv) Profitability Index is the profit expected in capital budgeting.
(v) In CAPM, systematic risk is the risk that cannot be eliminated by diversification, it being common to all firms.

MCQ Set 10

(A) Choose the correct option among four alternative answer.

QUESTION NO.1: The average daily sales of a company are ‘ 5 lac. The company normally keeps a cash balance of ‘ 80,000.If the weighted operating cycle of the company is 45 days, its working capital will be:
(A) ‘ 112.9 lac; **(B)** ‘ 113.3 lac; **(C)** ‘ 5.8 lac; **(D)** ‘ 225.8 lac.

QUESTION NO.2: The Degree of Operating Leverage (DOL) and the Degree of Financial Leverage (DFL) of Araska Ltd. are 3 and 1.67 respectively. If the management of the company targets to increase the EPS by 10%, by how much percentage should sales volume be increased? (Rounded off your answer to the nearest integer.)
(A) 5.00 %; **(B)** 3.00 %; **(C)** 2.00 %; **(D)** 4.00 %.

QUESTION NO.3: **The following various currency quotes are available from a leading bank:**
‘/£ 75.31/75.33 £ / $ 0.6391 / 0.6398 $ /¥ 0.01048 / 0.01052. The rate at which yen (¥) can be purchased with rupees will be: **(A)** ‘ 0.5070 **(B)** ‘ 1.5030 **(C)** ‘ 1.7230 **(D)** None of the above.

QUESTION NO.4: The P/V ratio of a firm dealing in precision instruments is 50% and margin of safety is 40%. **Calculate net profit,** if the sales volume is ‘ 12,50,000. **(A)** ‘ 25,000; **(B)** ‘ 1,25,000; **(C)** ‘ 2,50,000; **(D)** ‘ 1,50,000.

QUESTION NO.5: Xee Ltd. paid a dividend of ‘4.00 per share for the year 2013-14. If the expected growth rate is 12% and the rate of return is 20%, the intrinsic value for its share would be: **(A)**‘ 50; **(B)**‘ 200; **(C)**‘ 100; **(D)**‘ 55.

QUESTION NO.6: The stock of Blue Company sells for ‘ 120. The present value of exercise price and the value of a call option are ‘ 108.70 and ‘ 19.80 respectively. Hence the value of the put option is:
(A) ‘ 8.50 **(B)** ‘ 9.00 **(C)** ‘ 10 **(D)** Zero

QUESTION NO.7: The spot and 6 month forward rates of $ in relation to rupee are ’60.34 / 72 and 61.02/ 66 respectively. What would be the annualized forward margin (premium with respect to bid price)?
(A) 15.32% **(B)** 12.32% **(C)** 13.52% **(D)** 15.23%

QUESTION NO.8: The total asset - turnover ratio and total asset to net- worth ratio of a company are 2.10 and 2.50 respectively. If the net profit margin of the company is 6%, what would be the return on equity?
(A) 30.50% **(B)** 31.50% **(C)** 30.00% **(D)** 32.50%

QUESTION NO.9: **Calculate the price of 3 months ADS futures**, if ADS (FV ‘ 10) quotes ‘ 440 on NSE and 3 months future price quotes at ‘ 430 and the 1 month borrowing rate is given as 15% and the expected annual dividend yield is 25% per annum payable before expiry. **(A)** ‘ 454 **(B)** ‘ 464 **(C)** ‘ 444 **(D)** ‘ 450

QUESTION NO.10: S Limited earns ‘ 6 per share, has capitalisation rate of 10% and has a return on investment at the rate of 20%. According to Walter’s model, what should be the price per share at 30% dividend payout ratio?
(A) 120 **(B)** 102 **(C)** 112 **(D)** 106

(B) State whether the following statements are true or false:
(i) The amount of cheques issued by a company not yet paid out is referred to as net float.

(ii) Annual capital charge method is used for evaluating projects having different life spans.
(iii) According to Modigliani and Miller Theory on dividends, dividend pay-out ratio is irrelevant for all firms.
(iv) Simulation is done for capturing the different possible outcomes and determining the probability of a particular event happening.
(v) A call option is the right to sell, whereas a put option is a right to buy.

MCQ Set 11

(A) For each of the questions given below, one out of four answers is correct. Indicate the correct answer and give your workings/ reasons briefly.

QUESTION NO.1: Calculate the price of 3 months ADS futures, if ADS (FV '10) quotes ' 440 on NSE and 3 months future price quotes at '430 and the 1 month borrowing rate is given as 15% and the expected annual dividend yield is 25% per annum payable before expiry. **(A)** ' 454 **(B)** ' 464 **(C)** ' 444 **(D)** ' 450

QUESTION NO.2: RBI sold a 91 days T-Bill of face value of ' 100 at an yield of 7%. What was the issue price?
(A) ' 98.00 **(B)** ' 98.08 **(C)** ' 98.18 **(D)** 98.28

QUESTION NO.3: A one day repo is entered into on Jan 10, 2013 on an 11.99% 2014 security, maturing on April 7, 2014. The face value of the transaction is ' 5 Crores. The price of the security is ' 115.00. Assume that RBI has lent securities in the first leg to PNB. If the repo rate is 6%, what is the settlement amount on Jan 10, 2013? [Use 360 days convention] **(A)** ' 5,90,45,161 **(B)** ' 5,90,55,261 **(C)** ' 5,90,65,361 **(D)** ' 5,90,75,461

QUESTION NO.4: The P/V ratio of a firm dealing in precision instruments is 50% and margin of safety is 40%. **Calculate net profit,** if the sales volume is ' 12,50,000. **(A)** ' 25,000 **(B)** ' 1,25,000 **(C)** ' 2,50,000 **(D)** ' 1,50,000

QUESTION NO.5: The value of a share of MN Ltd. after right issue was found to be '75/-. The theoretical value of the right is ' 5. The number of existing shares required for a rights share is 2. The subscription price at which were issued were: **(A)** ' 22.50 **(B)** ' 40.00 **(C)** ' 65.00 **(D)** ' 82.00

(b) Write if each of the following sentences is T (true) or F (false)

(i) While designing the capital structure of a business the earnings capacity becomes a less important factor than the each flow ability.
(ii) An operating lease is one where a significant part of risk-bearing burden is on the lessee.
(iii) Swapping from fixed to floating may save the original borrower if interest rates decline.
(iv) LIBOR for treasury bill rate is the example of basis swaps.
(v) TRIPS are the international agreement on intellectual property rights.

MCQ Set 12

(A) Choose the correct option among four alternative answer.

QUESTION NO.1: High proportion of gearing will increase:
(A) Financial risk **(B)** Business risk **(C)** Cost of funds **(D)** Shareholders equity

QUESTION NO.2: The financial data furnished for A Ltd. for the year ended 31st March, 2013, as follows: Operating leverage = 3 : 1; Financial leverage = 2 : 1; Interest charges p.a. is ' 12 lakhs, Corporate tax rate is 40%. The variable cost as % of sales is 60%. **The EBIT of the company is:**
(A) ' 24 lakhs **(B)** ' 22. Lakhs **(C)** ' 32 lakhs **(D)** ' 18 lakhs

QUESTION NO.3: Modern Ltd.'s share beta factor is 1.40. The risk free rate of interest of government securities is 9%. The expected rate of return on the company equity shares is 16%. The cost of equity capital based on CAPM is: **(A)** 9% **(B)** 16% **(C)** 18.8% **(D)** 15.8%

QUESTION NO.4: If EBIT is less than financial break-even point then:
(A) EPS will be positive **(B)** EPS will be negative
(C) there will be no impact on EPS **(D)** Cost of debt raises

QUESTION NO.5: BKC Ltd. has profits before interest and taxes of ‘ 3,00,000. The applicable tax rate is 40%. Its required rate of return on equity in the absence of borrowing is 18%. In the bsence of personal taxes, the value of the company in an MM world with no leverage is:
(A) ‘ 10,00,000 **(B)** ‘ 11,60,000 **(C)** ‘ 12,60,000 **(D)** ‘ 14,00,000

QUESTION NO.6: The dividend decisions are concerned with:
(A) determination of quantum of profits to be distributed to the owners **(B)** the frequency of such payments
(C) the amounts to be retained by the firm **(D)** all of the above

QUESTION NO.7: A financial lease is preferred in the situation:
(A) when the long-term stability of asset is uncertain
(B) When the lessee want to own the asset but does not have enough funds to invest
(C) when the asset is subject to rapid obsolescence **(D)** none of the above

QUESTION NO.8: About 50 items are required every day for a machine. A fixed cost of ‘ 50 per order is incurred for placing an order. The inventory carrying cost per item amounts to ‘ 0. 02 per day. The lead period is 32 days. **Compute reorder level.** **(A)** 1,200 items **(B)** 1,400 items **(C)** 1,600 items **(D)** 1,800 items

QUESTION NO.9: The stock of Pioneer company sells for ‘ 120. The present value of exercise price and the value of a call option are ‘ 108.70 and ‘ 19.80 respectively. Hence the value of the put option is:
(A) ‘ 8.50 **(B)** ‘ 9.00 **(C)** ‘ 11.00 **(D)** ‘ 8.25

QUESTION NO.10: Currency swap is a method of:
(A) speculating the foreign exchange **(B)** hedging against foreign exchange risk
(C) making money by banks **(D)** exchanging one currency for another

(B) State if each of the following sentences is T (=true) or F (= false):

(i) Corporate tax rate does not affect cost of debt.
(ii) IRR and NPV always give the same profitability ranking.
(iii) If Profitability Index is 1, cash inflow and cash outflow would be equal.
(iv) An investor expecting a fall in interest rates buys a floor and also a cap.
(v) Commercial paper introduced by RBI in early 1990, is 'a secured promissory note' tied to any specific transaction.

MCQ Set 13

(A) Choose the correct option among four alternative answer.

QUESTION NO.1: What is the opportunity cost of not taking a discount, when the credit terms are 2 / 20 net 45? Assume 1 year = 360 days **(A)** 24.9% **(B)** 29.4% **(C)** 22.9% **(D)** 29.2%

QUESTION NO.2: E Limited has earnings before interest and taxes (EBIT) of ‘ 10 million at a cost of 7%., Cost of equity is 12.5%. Ignore taxes. **Calculate the overall cost of capital.**
(A) 11.26% **(B)** 11.62% **(C)** 16.12% **(D)** 12.61%

QUESTION NO.3: S Limited earns ‘ 6 per share, has capitalisation rate of 10% and has a return on investment at the rate of 20%. According to Walter's model, calculate the price per share at 30% dividend payout ratio.
(A) ‘120 **(B)** ‘102 **(C)** ‘112 **(D)** ‘106

QUESTION NO.4: On January 1, 2014, X Limited's begining inventory was ‘4,00,000. During 2014, X Ltd. purchased ’19,00,000 of additional inventory. On December 31, 2014, X Ltd.'s ending inventory was ‘5,00,000. Calculate the X Ltd.'s operating cycle in 2014, if it is assumed that the average collection period is 42 days. (1 year =365 days).
(A) 123.3 days **(B)** 132.3 days **(C)** 126.3 days **(D)** 133.3 days

QUESTION NO.5: **From the following, what is the amount of sales of A Ltd.?** ; Financial Leverage — 3:1; Interest—’200; Operating Leverage — 4 : 1; Variable Cost as a % of sales — 66.67%.
(A) ‘3,600 **(B)** ‘6,300 **(C)** ‘6,030 **(D)** ‘3,060

QUESTION NO.6: The dollar is currently trading at ’40. If rupee depreciates by 10%, what will be the spot rate?
(A) ‘0.0525 **(B)** ‘0.0552 **(C)** ‘0.0225 **(D)** ‘0.0522

QUESTION NO.7: **If the following rates are prevailing**: Euro/$: 1.1916/1.1925 and $/£ : 1.42/1.47 what will be the corss rate between Euro/Pound? **(A)** 1.6921 / 1.750 **(B)** 1.7530 / 1.6921 **(C)** 1.6921 / 1.1925**(D)** 1.7530/1.1916

QUESTION NO.8: A company has expected Net Operating Income - ‘ 2,40,000; 10% Debt - ‘7,20,000 and Equity Capitalisation rate - 20% what is the weighted average cost of capital for the company?
(A) 0.15385 **(B)** 0.13585 **(C)** 0.18351 **(D)** 0.15531

QUESTION NO.9: The P/V ratio of a firm dealing in precision instruments is 50% and margin of safety is 40%. Calculate net profit, if the sales volume is ‘ 50,00,000. **(A)**‘ 1,00,000 **(B)** ‘ 5,00,000 **(C)**‘ 10,00,000 **(D)**‘ 6,00,000

(B) State if each of the following sentences is T (= true) or F (= false):

(i) Deterministic model of financial planning yield multiple — point estimate.
(ii) Risk under transaction exposure can be minimized using Money Market Hedge.
(iii) Flexibility is one among the performance indicators of the organisation.
(iv) A project is a “One-shot” major undertaking.
(v) Fund Managers use futures as a more economical way of achieving their portfolio goals.
(vi) The profit or loss associated with converting foreign currency dominated assets/liabilities in reporting currency is called Economic Exposure.
(vii) TRIMs are the rules; a country applies to the domestic regulations to promote Foreign investment, often as a part of an Industrial Policy.

MCQ Set 14

(A) Choose the correct option among four alternative answer.

QUESTION NO.1: Dividend-Payers Ltd. has a stable income and stable dividend policy. The average annual dividend payout is ‘ 27 per share (Face Value = ‘100). You are required to find out Dividend payout in year 2, if the company were to have an expected market price of ‘160 per share at the existing cost of equity.
[The market price in year 1 is ‘ 150] **(A)** ‘ 28.88 **(B)** ‘ 26.86 **(C)** ‘ 28.80 **(D)** ‘ 26.98

QUESTION NO.2: The ratio of current assets (‘ 3,00,000) to current liabilities (‘2,00,000) is 1.5 : 1. The accountant of this firm is interested in maintaining a current ratio of 2 : 1 by paying some part of current liabilities. Hence, the amount of current liabilities which must be paid for this purpose is:
(A) 1,00,000 **(B)** ‘ 2,00,000 **(C)** ‘ 2,50,000 **(D)** ‘ 1,50,000

QUESTION NO.3: The interest rate in Germany is 11 per cent and the expected inflation rate is 5 per cent. The British interest rate is 9 per cent. How much is the expected inflation rate in Britain?
(A) 3.0% **(B)** 3.1% **(C)** 4.5% **(D)** 2.9%

QUESTION NO.4: Annual usage of a firm is 3,60,000 units and 2 to 4 days are taken in receiving delivery of inventory after placing an order. **Calculate Re-order level,** if the reasonable expected stock out is 100 units per day. (Assume 1 year = 360 days) **(A)** 3000 units **(B)** 3300 units **(C)** 2500 units` **(D)** 3500 units

QUESTION NO.5: A project had an equity beta of 1.2 and was going to be financed by a combination of 30% debt and 70% equity (assume debt beta = 0). Hence, the required rate of return of the project is (assume Rf = 10% and Rm =18%) **(A)** 16.27% **(B)** 17.26% **(C)** 16.72% **(D)** 12.76%

QUESTION NO.6: M/s. Fine Dress Ltd. has sales of ‘800 lakhs and the variable costs amount to 62.5% of sales. The Company has fixed cost of ‘ 100 lakhs. If the sales of the Company increase by 5% from the existing level, what will be the per cent change in the EBIT? **(A)** 7.5% **(B)** 8.7% **(C)** 7.9% **(D)** 10.9%

QUESTION NO.7: Consider the following quotes.; Spot (Euro/Pound) = 1.6543/1.6557; Spot (Pound/NZ$) = 0.2786/ 0.2800. **Calculate the % spread on the Euro/Pound Rate.** **(A)** 0.085% **(B)** 0.0085% **(C)** 0.85% **(D)** 0.00085%

(B) Match the descriptions to the ‘Four kinds of Float’ with reference to management of cash:

Descriptions:

(i) The time when a cheque is being processed by post office, Messanger service or other means of delivery.
(ii) The time required to sort, record and deposit the cheque after it has been received by the company.
(iii) The time from the deposit of cheque to the crediting of funds in the seller’s account.
(iv) The time between the sale and the mailing of the invoice.

Four kinds of Float—Management of cash:

(A) Billing Float
(B) Banking processing Float
(C) Cheque processing Float
(D) Mailing Float

(c) State if each of the following sentences is T (= true) or F (= false):

(i) Basic lease period refers to the period during which the lease is irrevocable.
(ii) LIBOR for treasury bill rate is the example of basis swaps.
(iii) Provision for taxation is an external source of financing.
(iv) TRIPS are the international agreement on intellectual property rights.
(v) The ROE of an unlevered firm is higher than the ROE of a levered firm, when the ROI is lower than the cost of debt.
(vi) If IRR is less than the firm’s cost of capital, the project should be rejected.
(vii) There is no need for calculating separate cost for retained earnings, when cost of equity capital is calculated on the basis of the market value of equity shares.
(viii) In CAPM, systematic risk is the risk that cannot be eliminated by diversification, it being common to all

firms.

(ix) Interest rate swap is an exchange of interest payments between two parties.

MCQ Set 15

QUESTION NO.1: If the risk free rate of interest (Rf) is 10%, and expected return on market portfolio (Rm) is 15%, ascertain expected return of the portfolio if portfolio beta is 0.30. **(A)** 10.5% **(B)** 11.5% **(C)** 12.5% **(D)** 13.5%

QUESTION NO.2: XYZ Limited borrows £15 Million of six months LIBOR + 10.00% for a period of 24 months. The company anticipates a rise in LIBOR, hence it proposes to buy a Cap Option from its Bankers at the strike rate of 8.00%. The lump sum premium is 1.00% for the entire reset periods and the fixed rate of interest is 7.00% per annum. The actual position of LIBOR during the forthcoming reset period is as under:

Reset Period	LIBOR
1	9.00%
2	9.50%
3	10.00%

You are required to show how far interest rate risk is hedged through Cap Option. For calculation, work out figures at each stage up to four decimal points and amount nearest to £. It should be part of working notes.

(A) £ 30,861 **(B)** £ 40,861 **(C)** £ 50,861 **(D)** £ 60,861

QUESTION NO.3: ABC Ltd. issued 9%, 5 year bonds of f 1,000/- each having a maturity of 3 years. The present rate of interest is 12% for one year tenure. It is expected that Forward rate of interest for one year tenure is going to fall by 75 basis points and further by 50 basis points for every next year in further for the same tenure. This bond has a beta value of 1.02 and is more popular in the market due to less credit risk. What will be the Intrinsic value of bond. **(A)** ‘ 832.00 **(B)** ‘ 582.68 **(C)** ‘ 798.28 **(D)** ‘ 942.48

QUESTION NO.4: **The following data is available for a bond:** Face Value - ‘ 1,000 ; Coupon Rate - 11% ; Years to Maturity - 6; Redemption Value - ‘ 1,000 ; Yield to Maturity - 15% ; Round-off your answer to 3 decimals) ; **What will be the Current Market Price.** **(A)** ‘634.48 **(B)** ‘734.48 **(C)** ‘834.48 **(D)** ‘934.48

QUESTION NO.5: Mr. Dayal is interested in purchasing equity shares of ABC Ltd. which are currently selling at ‘ 600 each. He expects that price of share may go upto’ 780 or may go down to ‘480 in three months.
What combination of share and option should Mr. Dayal select if he wants a perfect hedge?
(A) 0.50 share **(B)** 0.70 share **(C)** 0.90 share **(D)** 1.00 share

QUESTION NO.6: A is an investor and having in its Portfolio Shares worth ‘1,20,00,000 at current price and Cash ’10,00,000. The Beta of Share Portfolio is 1.4. **What will be the current portfolio beta?**
(A) 1.3025 **(B)** 1.2923 **(C)** 2.3025 **(D)** 2.2923

QUESTION NO.7: Mr. Paresh can earn a return of 16 per cent by investing in equity shares on his own. Now he is considering a recently announced equity based mutual fund scheme in which initial expenses are 5.7 per cent and annual recurring expenses are 1.7 per cent. How much should the mutual fund earn to provide Mr. Kiran a return of 16 per cent? **(A)** 15.67% **(B)** 16.67% **(C)** 17.67% **(D)** 18.67%

QUESTION NO.8: There are two projects, Project A & B. From the given data please. Suggest which project will be selected?

	Project A	Project B
Investment	5000000	7500000
Net Cash Inflow	6250000	9150000

K = 10%. **(A)** Project A **(B)** Project B **(C)** A & B both **(D)** None of the above

QUESTION NO.9: Consider a 10 year, 12% coupon bond with a par value of ' 10,000. Assume that the required yield on this bond is 13%. Find out the value of the bond. **(A)** ' 2,601.1 **(B)** '9461.2 **(C)** '4,601.1 **(D)** '5,601.1

QUESTION NO.10: Government securities are free from
(A) Default risk **(B)** Purchasing power risk **(C)** Interest rate risk **(D)** Re-Investment risk

MCQ Set 16

QUESTION NO.1: Buenos Aires Limited has 10 lakh equity shares outstanding at the beginning of the year 2013. The current market price per share is ' 150. The current market price per share is ' 150. The company is contemplating a dividend of ' 9 per share. The rate of capitalization, appropriate to its risk class, is 10%. Based on MM approach, **calculate the market price of the share** of the company when Dividend is declared :
(A) 156 **(B)** 166 **(C)** 176 **(D)** 186

QUESTION NO.2: Sea Rock Ltd. has an excess cash of ' 30,00,000 which it wants to invest in short-term marketable securities. Expenses resulting to investment will be ' 45,000. The securities invested will have an annual yield of 10%. The company seeks your advice as to the period of investments so as to earn a pre-tax income of 6%.
(A) 5 months **(B)** 6 months **(C)** 9 months **(D)** 12 months

QUESTION NO.3: Rishav holds two equity shares A and B in equal proportion with the following risk and return: E(Ra) = 26% ; S.D.a = 20% ; E(Rb) = 22% ; S.D.b = 24%. The returns of these securities have a positive correlation of 0.7. Calculate the portfolio return and risk. **(A)** 25% (expected return), 29% risk **(B)** 24% (expected return), 30% risk **(C)** 24% (expected return), 20.30% risk **(D)** 25% (expected return), 20.30% risk

QUESTION NO.4: **Consider the following quotes:** Spot (Euro / Pound) = 1.3904 - 1.3908 ; Spot (Pound / NZ $) = 0.5020 - 0.5040 ; What will be the possible % spread on the cross rate between Euro and NZ $?
(A) 0.40 **(B)** 0.39 **(C)** 0.41 **(D)** 0.43

QUESTION NO.5: Following information is available regarding a mutual fund: Return - 13 ; Risk - 16 ; Beta - 0.90; Risk free rate - 10. **Calculate Sharpe ratio.** **(A)** 80. **(B)** 90. **(C)** 0.20. **(D)** 0.21

QUESTION NO.6: The risk free return is 8 per cent and the return on market portfolio is 14 per cent. If the last dividend on Share 'A' was 2.00 and assuming that its dividend and earnings are expected to grow at the constant rate of 5 per cent. The beta of share 'A' is 2.50. **Compute the intrinsic value of share A.**
(A) 7.60. **(B)** 11.67 **(C)** 7.62. **(D)** 7.63.

QUESTION NO.7: What is the price of a European put option on a non-dividend-paying stock when the stock price is '69, the strike price is ' 70, the risk-free interest rate is 5% per annum, the volatility is 35% per annum, and the time to maturity is six months? **(A)** 3.40 **(B)** 6.40 **(C)** 4.50 **(D)** 5.40

QUESTION NO.8: A characteristic line is formed by regressing
(A) Stock prices with market index **(B)** Beta with required rate of return
(C) Standard deviation with required rate of return **(D)** Stock returns with market returns

QUESTION NO.9: Beta of a security measures its
(A) Diversifiable risk **(B)** Market risk **(C)** Financial risk **(D)** None of the above

QUESTION NO.10: The February Pepper future traded at 16.80, the February 18.00 call at 0.45 and the February 18.00 put at 0.58. Both are options on the February future. Find out whether any arbitrage opportunity exists.
(A) Arbitrage opportunity exists **(B)** Does not exists

MCQ Set 17

QUESTION NO.1: A mutual fund has an NAV of '12.50 per unit at the beginning of the year. At the end of the year the NAV increases to '13.40. In the meanwhile, the Fund distributes ' 0.85 as dividend and ' 0.70 as capital gains. What will be the fund's rate of return during the year? **(A)** 18.6% **(B)** 19.6% **(C)** 20.6% **(D)** 21.6%

QUESTION NO.2: Which of the following is not a source of systematic risk?
(A) Market Risk **(B)** Interest rate risk **(C)** Purchasing power risk **(D)** Financial risk

QUESTION NO.3: A project had an equity beta of 1.40 and was going to be financed by a combination of 30% debt and 70% equity. Assuming debt-beta to be zero, the project beta is: **(A)** 0.68 **(B)** 0.78 **(C)** 0.88 **(D)** 0.98

QUESTION NO.4: CNX Nifty is currently quoting at 9200. Each lot is 55. An investor purchases a March Futures contract at 9300. He has been asked to pay 7% margin. What amount of initial margin is required to be deposited by him? To what level Nifty futures should be increased to get a gain of 6%?
A. ' 35805, 9339.05 **(B)** ' 35000, 9939.05 **(C)** '36805, 9539 **(D)** ' 40000, 9400

QUESTION NO.5: The stock of ABC Ltd. sells for ' 240. The present value of exercise price and the value of call option are ' 217.40 and ' 39.60 respectively. What is the value of put option?
(A) ' 16.50 **(B)** ' 22.00 **(C)** ' 17.00 **(D)** 18.00

QUESTION NO.6: An investor holds two equity shares A and B in equal proportion with the following risk and return: E (Ra) = 26% ; S.D.a = 20% ; E(Rb) = 22% ; S.D.b = 24%. The returns of these securities have a positive correlation of 0.7. The portfolio risk will be:- **(A)** 20.30% **(B)** 21.67% **(C)** 19.49% **(D)** 17.15%

QUESTION NO.7: From the following quotes of a bank, determine the rate at which Yen can be purchased with Rupees. Rs. / £ Sterling: 75.31 - 33 ; £ Sterling / Dollar ($): 1.563 - 65; Dollar ($) / Yen (¥): 1.048 / 52 [per 100 Yen]
(A) 124.02 **(B)** 142.02 **(C)** ' 412.02 **(D)** ' 214.02

QUESTION NO.8: A company has obtained quotes from two different manufacturers for an equipment. The details are as follows: Make X :- Cost ' 4.5 million with estimated life of 10 years ; Make Y :- Cost ' 6.0 million with estimated life of 15 years ; Ignore maintenance and operation cost. **Which one would be cheaper?** Company's cost of capital is 10%. PVIFA (10%, 10) = 6.1446 ; PVIFA (10%, 15) = 7.6061
(A) Make X will be cheaper **(B)** Make Y will be cheaper
(C) Cost will be the same **(D)** None of the above

QUESTION NO.9: Consider the following for Strong Ltd. Return on Govt. Securities = 12%; Share beta = 1.5; Market return = 16% ; Based on CAPM, cost of equity will be: **(A)** 28% **(B)** 22% **(C)** 18% **(D)** 12%

QUESTION NO.10: The 6-month forward rate for US dollar against rupee is quoted at ' 49.50 as opposed to a spot price of ' 48.85. The forward premium on US dollar is: **(A)** 1.50% **(B)** 3.08% **(C)** 3.05% **(D)** 3.03%

MCQ Set 18

QUESTION NO.1: Liquidity risk is a financial risk due to uncertain liquidity. What can this cause to happen?
(A) A firm's credit rating fall. **(B)** A firm experiences sudden unexpected cash outflow.
(C) A firm's market experiences a loss in liquidity. **(D)** All of the above.

QUESTION NO.2: What is inflation rate?
(A) The increase in prices of goods and services in the economy.

(B) The risk that the value of assets or income will decrease.
(C) The risk that inflation will get out of control to become hyperinflation.
(D) The risk that is due to uncertainty of inflation.

QUESTION NO.3: What are the four options for dealing with a risk?
(A) Accept, Mitigate, Transfer and Avoid. **(B)** Accept, Insure, Transfer and Avoid.
(C) Accept, Mitigate, Reduce and Avoid. **(D)** Situation, Task, Action and Result.

QUESTION NO.4: A portfolio comprises two securities and the expected return on them is 12% and 16% respectively. Determine return of portfolio if first security constitutes 40% of total portfolio.
(A) 12.4% **(B)** 13.4% **(C)** 14.4% **(D)** 15.4%

QUESTION NO.5: An option dealer took short positions in a call and a put options on dollar at the strike price of '47.00. He received premiums of '2.50 for each option. For the dealer to make a gain in this option strategy, price should remain in the range of **(A)** '44.50 to '47.00 **(B)** '47.00 to '49.50 **(C)** '44.50 to '49.50 **(D)** '42.00 to '52.00
QUESTION NO.6: What rate should a bank quote for a sale of 3 month forward exchange contract for US $1 million given interbank quote spot US $ 1= '45.02- 04 and forward premium 20-25 point?
(A) '45.29 **(B)** '45.22 **(C)** '45.27 **(D)** '45.24

QUESTION NO.7: By using the constant growth formula, find out the cost of equity of a company which has growth rate of 5%, last year's dividend '1 and CMP of company's equity share is '20.
(A) '10.25 **(B)** '10.00 **(C)** '8.25 **(D)** '12.00

QUESTION NO.8: **Consider the following of Target Ltd:** Standard deviation of share = 4%, Correlation coefficient = 0.8, Market standard deviation = 2.5%. Based on CAPM, the Beta coefficient of the company's share (which is traded in the stock market) is equal to:- **(A)** 1.50 **(B)** 1.28 **(C)** 1.00 **(D)** 0.50

QUESTION NO.9: The probability distribution of NPV is given below:

NPV (')	Probability
30,000	0.1
60,000	0.3
1,20,000	0.4
1,50,000	0.2

If the cost of the project is '3,00,000, **the Profitability Index is :-** **(A)** 1.23 **(B)** .1.33 **(C)** 1.43 **(D)** 1.53

QUESTION NO.10: The following are the data on two Mutual Funds: Fund Return % Beta Vreedhi '141.40 Mitra '161.50 . If the risk-free rate is 6%, the Treynor's ratios are:-
(A) 5.71, 6.67 **(B)** 5.67, 6.71 **(C)** 6.71, 5.67 **(D)** 5.76, 6.76

MCQ Set 19

QUESTION NO.1: Which of the following is not an investment constraint?
(A) Liquidity **(B)** The absence of the need for regular income.
(C) The preferred time horizon **(D)** Risk tolerance.

QUESTION NO.2: It is given that Rs. / £ quote is '100.68 – 102.95 and Rs. / $ quote is '61.86 – 62.87. What would be the $ / £ quote? It is given that Rs./ £ quote is '100.68 – 102.95 and Rs./ $ quote is '61.86 – 62.87. What would be the $ / £ quote? **(A)** $1.6014 - $ 1.6642 **(B)** $1.6014 - $1.6542 **(C)** $1.6014 - $6352 **(D)** $1.6014 - $6252

QUESTION NO.3: The theoretical forward price of the following security for 6 months is: Spot Price (Sx)- '160;

Risk free interest rate 9% ; [Given: e0.045 = 1.046028] **(A)** 166.3645 **(B)** '167.4645 **(C)** ' 167.3645 **(D)**'166.4656

QUESTION NO.4: A project had an equity beta of 1.3 and was going to be financed by a combination of 30% debt and 70% equity. Assuming debt-beta to be zero, the project beta is: **(A)** 0.81 **(B)** 0.71 **(C)** 0.51 **(D)** 0.9

QUESTION NO.5: An investor buys a call option contract for a premium of ' 150. The exercise price is ' 15 and the current market price of the share is ' 12. If the share price after three months reaches ' 20, what is the profit made by the option holder on exercising the option? Contract is for 100 shares. Ignore the transaction charges.
(A) '450 **(B)** '350 **(C)**' 375 **(D)** '475

QUESTION NO.6: Mr. X can earn a return of 18% by investing in equity shares on his own. Now he is considering recently announced equity based mutual fund scheme in which initial expenses are 6.70% and annual recurring expenses are 1.7%. How much should the mutual fund earn to provide Mr. X a return of 18 per cent?
(A) 22 **(B)** 19 **(C)** 24 **(D)** 21

QUESTION NO.7: CNX Nifty is currently quoting at 9100. Each lot is 75. An investor purchases a May Futures contract at 9200. He has been asked to pay 5% margin. What amount of initial margin is he required to deposit? To what level NIFTY futures should in increase to get a gain of 4%? **(A)** 9318.4 **(B)** 9218.4 **(C)** 9218.5 **(D)** 9118.4

QUESTION NO.8: P Ltd. has an EPS of ' 75 per share. Its Dividend Payout Ratio is 30%. Earnings and dividends of the company are expected to grow at 6% per annum. Find out the cost of equity capital if its market price is ' 300 per share. **(A)** 11.5% **(B)** 12.5% **(C)** 13.5% **(D)** 14.5%

QUESTION NO.9: An investor has three alternatives of varying investment values. The data available for each of these alternatives are given below:

Alternative	Expected Return (%)	Standard Deviation of Return
I	23	8.00
II	20	9.50
III	18	5.00

Which alternative would be the best if coefficient of variation is used?
(A) Alternative III is the best as its co-efficient of variation is the lowest.
(B) Alternative II is the best as its co-efficient of variation is the lowest.
(C) Alternative I is the best as its co-efficient of variation is the lowest.
(D) None.

QUESTION NO.10: A student ordered a book from USA on 01-05-2018 for \$ 90, when the spot rate was '68.50/\$. Payment was made ten days later, on 11-05-2018 when the book was delivered. By this time, the rupee had appreciated by 10%. How much did it cost the student in Rupees? (Ignore transaction and delivery cost).
(A) '5304.55 **(B)** '5404.55 **(C)** '5504.55 **(D)** ' 5604.55

MCQ Set 20

QUESTION NO.1: Which of the following securities is not a part of money market?
(A) Commercial Paper **(B)** Call money **(C)** 91 day Treasury bill **(D)** 5 year Public Deposit.

QUESTION NO.2: Which of the following assumption is wrong under MM approach?
(A) Capital market is perfect. **(B)** There is no transaction cost.
(C) The dividend payout ratio is 0%. **(D)** There are no corporate taxes.

QUESTION NO.3: The aim of foreign exchange risk management is :

(A) To maximize profits. **(B)** To know with certainty the quantum of future cash flows.
(C) To minimize losses. **(D)** To earn a minimum level of profit.

QUESTION NO.4: Z Ltd. Is a manufacturing company having asset turnover ratio of 2 and debt- asset ratio of 0.60 for the year ended 31st March ,2009 . If its net profit margin is 5%, the Return on Equity (ROE) of the company will be : **(A)** 20% **(B)** 25% **(C)** 16.7% **(D)** data insufficient.

QUESTION NO.5: Which of the following conditions indicate that short term funds have been put to long term use? **(A)** Current Ratio is less than 1.00 **(B)** Quick Ratio is less than 1.00
(C) Total debt to Equity ratio is more than 1.00 **(D)** Net working Capital is positive.

QUESTION NO.6: A company has paid Rs. 3 as current dividend, the growth rate of dividend paid by the company is 8%. If the cost of equity is 12%, the price of the company's share in nearest Rs. three year hence will be :
(A) Rs. 100 **(B)** Rs. 118 **(C)** Rs. 110 **(D)** 102

QUESTION NO.7: An Indian company is planning to invest in US. The US inflation rate is expected to be 3% and that of India is expected to be 8% annually. If spot rate currently is Rs. 45 / US $, what spot rate you expect after 5 years? **(A)** Rs.56.09 / US $ **(B)** Rs. 57.00 / US $ **(C)** Rs. 57.04 / US $ **(D)** 57.13 / US $.

QUESTION NO.8: The average daily sales of a company are Rs. 5 lac.The company normally keeps a cash balance of Rs. 80000.If the weighted operating cycle of the company is 45 days, its working capital will be
(A) Rs.112.9 lac. **(B)** Rs. 113.3 lac **(C)** Rs. 5.8 lac **(D)** Rs. 225.8 lac.

QUESTION NO.9: An Indian bank wants to find their Nostro A/c with a US correspondent by US $ 500000 against INRS when interbank rate is US $ 1= Rs.47.20 / 50 . The deal is struck and the overseas bank's Vostro A/c that is being maintained with the India bank will be credited by :
(A) Rs. 23,600,000 **(B)** Rs. 23,750,000 **(C)** Rs. 23,675,000 **(D)** Rs. 23,712,500

QUESTION NO.10: The stock of ABC Ltd sells for Rs. 240. The present value of exercise price and value of call option are Rs. 217.40 and Rs. 39.60 respectively. What is the value of put option?
(A) Rs. 16.50 **(B)** Rs. 22.00 **(C)** Rs.17.00 **(D)** Rs.18.00

MCQ Set 21

QUESTION NO.1: Bidhan purchased a second hand machine for Rs. 8,000 on April, 2008 and spent Rs. 3,500 on overhauling and installation. Depreciation is written-off 10% p.a. on original cost. On June 30, 2011, the machine was found to be unsuitable and sold for Rs. 6,500. What is the loss to be written -off?
(A) Rs. 1,265.80 **(B)** Rs. 1,262.50 **(C)** Rs. 1,309.80 **(D)** Rs. 1,350.05

QUESTION NO.2: Surya Ltd. has issued 30,000 irredeemable 14% debentures of Rs. 150 each. The cost of floatation of debentures is 5% of the total issued amount. The company's taxation rate is 40%. **The cost of debentures is** :
(A) 8.95% **(B)** 7.64% **(C)** 9.86% **(D)** 8.84%

QUESTION NO.3: A company has obtained quotes from two different manufacturers for an equipment. The details are as follows :

Product	Cost (Rs. Million)	Estimated life (years)
Make A	4.50	10
Make B	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper ? The company's cost of capital is 10%. [Given : PVIFA (10%, 10 years) = 6.1446 and PVIFA (10%, 15 years) = 7.6061]
(A) Make A will be cheaper **(B)** Make B will be cheaper **(C)** Cost will be the same **(D)** None of the above.

QUESTION NO.4: ABC Ltd. has a debt-equity mix of 30 / 70. If ABC Ltd.'s debt beta is 0.3 and for its activity (or projects) is 1.21, what is the beta for its equity? **(A)** 1.65 **(B)** 1.60 **(C)** 1.52 **(D)** None of the above

QUESTION NO.5: Anand Ltd. announced a rights issue of four shares of Rs. 100 each at a premium of 160% for every five shares held by the existing shareholders. The market value of the shares at the time of rights issue is Rs. 395. **The value of right is** : **(A)** Rs. 90 **(B)** Rs. 80 **(C)** Rs. 60 **(D)** Rs. 55

QUESTION NO.6: A company is planning to issue a discount bond with a par value of Rs. 1,000, implicit interest rate of 11.5% and a redemption period of 5 years. The company also intends to offer an early bird incentive of 1.5%. The issue price (rounded up to nearest rupee) will be [Given : PVIF (11.5%, 5 years) = 0.5803]
(A) Rs. 580 **(B)** Rs. 572 **(C)** Rs. 543 **(D)** Rs. 490

QUESTION NO.7: ABC Ltd.'s share price at present is Rs. 120. After 6 months, the price will be either Rs. 150 with a probability of 0.8 or Rs. 110 with a probability of 0.2. A European call option exists with an exercise price of Rs. 130. The expected value of the call option at maturity date will be : **(A)** Rs. 16 **(B)** Rs. 20 **(C)** Rs. 10 **(D)** Zero

QUESTION NO.8: An investor has Rs. 5,00,000 to invest. What will be his expected risk premium in investing in equity versus risk-free securities in the following conditions :

Investment	Probability	Expected return
Equity	0.6	Rs. 2,00,000
	0.4	(-) Rs. 1,50,000
Risk-free security	1.0	Rs. 25,000

(A) Rs. 35,000 **(B)** Rs. 45,000 **(C)** Rs. 60,000 **(D)** Rs. 85,000

QUESTION NO.9: Exchange rate system where the central bank intervenes to smoothen out exchange rate fluctuations is known as : **(A)** Free float **(B)** Managed float **(C)** Fixed rate system **(D)** Floating rate system

QUESTION NO.10: Variable rate investors are the typical users of :
(A) Interest rate caps **(B)** Interest rate collars **(C)** Both (A) and (B) **(D)** Interest rate floors

MCQ Set 22

QUESTION NO.1: Money market hedge involves—
(A) Borrowing in foreign currency in case of exports **(B)** Investing in foreign currency in case of imports
(C) Both A and B **(D)** Neither of the above

QUESTION NO.2: A company has obtained quotes from two different manufacturers for an equipment. The details are as follows :

Product	Cost (' Million)	Estimated life (years)
Make X	4.50	10
Make Y	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper? The company's cost of capital is 10%.
(A) Make X will be cheaper **(B)** Make Y will be cheaper **(C)** Cost will be the same **(D)** None of the above

QUESTION NO.3: An Indian company is planning to invest in US. The US inflation rate is expected to be 3% and that of India is expected to be 8% annually. If the spot rate currently is ' 45 / US$, what spot rate can you expect after 5 years? **(A)** ' 59.09 / US$ **(B)** ' 57.00 / US$ **(C)** ' 57.04/ US$ **(D)** ' 57.13 / US$

QUESTION NO.4: ABC Ltd. has a debt-equity mix of 30 / 70. If ABC Ltd.'s debt beta is 0.3 & for its activity (or projects) is 1.21, what is the beta for its equity? **(A)** 1.65 **(B)** 1.60 **(C)** 1.52 **(D)** None of the above

QUESTION NO.5: ABC Ltd. intends to invest ' 50 lakhs in commercial paper (CP) and has received the following quotes from a prima dealer : Bid 5.30%, Ask 5.00%. If the maturity period of the CP is 45 days, the investment amount (rounded upto nearest rupee) will be (Assume day count basis as "actual / 365").
(A) ' 49,67,541 **(B)** ' 49,68,454 **(C)** ' 49,69,367 **(D)** None of the above

QUESTION NO.6: The equity shares of MNP Ltd. are selling at ' 240 each. At the end of the holding period the share is expected to be worth any one of the following values :

Price	'220	'250	' 250
Probability	0.3	0.4	0.3

A European call option with exercise price of ' 240 will (ignoring time value of money) be worth :
(A) ' 16 **(B)** ' 15 **(C)** ' 14 **(D)** ' 18

QUESTION NO.7: On April 1, 3 months interest rate in the US$ and Germany DM are 6.5% and 4.5% per annum respectively. The US$ / DM spot rate in 0.6560. What would be the forward rate for DM for delivery on 30th June?
(A) US$ 0.6592 / DM **(B)** US$ 0.6528 / DM **(C)** US$ 0.6430 / DM **(D)** US$ 0.6525 / DM

QUESTION NO.8: Which of the following is not an assumption of Black and Scholes Model (BSM)?
(A) The risk-free rate of interest is known **(B)** No imperfection exist in writing an option
(C) Only European options are considered **(D)** Dividend is paid on the shares

QUESTION NO.9: A company issue commercial paper for ' 3 crores with a maturity period of 90 days. The interest rate is 11% p.a. The net amount received by the company will be :
(A) ' 2.94 crores **(B)** ' 2.92 crores **(C)** ' 2.85 crores **(D)** ' 3.08 crores

QUESTION NO.10: A share of Sun Ltd. is currently quoted at ' 55. The retained earning per share being 40% is ' 4 per share. If the investors expect annual growth rate of 10%, what would be the cost of equity of Sun Ltd.?
(A) 20.5% **(B)** 21.0% **(C)** 22.0% **(D)** 23.5%

MCQ Set 23

(A) Choose the most appropriate one from the stated options and write it down [only indicate A, B, C, D as you think correct :

QUESTION NO.1: Eureka Ltd. has a debt-equity mix of 30 / 70. If Eureka Ltd.'s debt beta for its activity (or projects) is 1.21, what is the beta for its equity? **(A)** 1.65 **(B)** 1.60 **(C)** 1.52 **(D)** None of the above

QUESTION NO.2: Nigam Ltd.'s share price at present is ' 120. After 6 months, the price will be either ' 150 with a probability of 0.8 or ' 110 with a probability of 0.2. A European call option exists with an exercise price of ' 130. The expected value of the call option at maturity date will be : **(A)** ' 16 **(B)** ' 20 **(C)** ' 10 **(D)** Zero

QUESTION NO.3: Swarup purchased a second hand machine for ' 8,000 on April, 2008 and spent ' 3,500 on overhauling and installation. Depreciation is written-off 10% p.a. on original cost. On June 30, 2011, the machine was found to be unsuitable and sold for ' 6,500. What is the loss to be written -off?
(A) ' 1,265.80 **(B)** ' 1,262.50 **(C)** ' 1,309.80 **(D)** ' 1,350.05

QUESTION NO.4: Surya Ltd. has obtained quotes from two different manufacturers for an equipment. The details are as follows :

Product	Cost (Rs. Million)	Estimated life (years)
Make A	4.50	10
Make B	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper? The company's cost of capital is 10%. [Given: PVIFA (10%, 10 years) =6.1446 and PVIFA (10%, 15 years) = 7.6061]
(A) Make A will be cheaper **(B)** Make B will be cheaper **(C)** Cost will be the same **(D)** None of the above.

QUESTION NO.5: An investor has ' 5,00,000 to invest. What will be his expected risk premium in investing in equity versus risk-free securities in the following conditions :

Investment	Probability	Expected return
Equity	0.6	' 2,00,000
	0.4	(-) ' 1,50,000
Risk-free security	1.0	' 25,000

(A) ' 35,000 **(B)** ' 45,000 **(C)** ' 60,000 **(D)** ' 85,000

QUESTION NO.6: The value of a share of MN Ltd. after right issue was found to be ' 75/-. The theoretical value of the right is ' 5. The number of existing shares required for a rights share is 2. The subscription price at which were issued were: **(A)** ' 22.50 **(B)** ' 40.00 **(C)** ' 65.00 **(D)** ' 82.00

QUESTION NO.7: HP Leasing Company expects a minimum yield of 10% on its investment in the leasing business. It proposes to lease a machine costing ' 5,00,000 for ten years. If yearly lease payments are received in advance , the lease rental to be charged by the company for lease will be :
(A) ' 81372 **(B)** ' 73975 **(C)** ' 72,370 **(D)** None of (A), (B), (C).

QUESTION NO.8: The aim of foreign exchange risk management is :
(A) To maximize profits. **(B)** To know with certainty the quantum of future cash flows.
(C) To minimize losses. **(D)** To earn a minimum level of profit.

QUESTION NO.9: The average daily sales of a company are ' 5 lac. The company normally keeps a cash balance of ' 80000.If the weighted operating cycle of the company is 45 days, its working capital will be
(A) '112.9 lac. **(B)** ' 113.3 lac **(C)** 5.8 lac **(D)** 225.8 lac.

QUESTION NO.10: The following various currency quotes are available from a leading bank:
Rs. / £:- 75.31 / 75 .33 ; £ / $:- 0.6391 / 0.6398 ; $ /¥ :- 0.01048 / 0.01052. The rate at which yen (¥) can be purchased with rupees will be:- **(A)** Re. 0.5070 **(B)** ' 1.5030 **(C)** ' 1.7230 **(D)** .None of the above.

(B) Choose the most appropriate one from the stated options and write it down [only indicate A, B, C, D as you think correct :

QUESTION NO.1: Which of the following is a correct sequence of life cycle of a project?
(A) Planning, selection, scheduling, termination **(B)** Planning, implementation, control, evaluation
(C) Selection, scheduling, implementation, evaluation, control **(D)** Planning, implementation, control, evaluation

QUESTION NO.2: Which one of the following would describe commercial paper most appropriately?
(A) Unsecured long - term notes as loan **(B)** Unsecured short - term loan notes
(C) Secured short - term loan notes **(D)** Secured long - term loan notes

QUESTION NO.3: Short -term portfolio investments are recorded in which head of Balance of Payment (BOP) account? **(A)** Investment Income **(B)** Current Accounts **(C)** Capital Account **(D)** Reserves

QUESTION NO.4: The internal rate of return can be said to be based on the assumption that the intermediate cash flows are **(A)** Re-invested at a rate equal to the internal rate of return of the firm.
(B) Re-invested at the cost of capital of the firm. **(C)** Perfectly certain **(D)** Highly variable

QUESTION NO.5: The traditional view of financial management looks at:
(A) Arrangement of short-term and long-term funds from financial institutions.
(B) Mobilisation of funds through financial instruments **(C)** Orientation of Finance function with accounting function **(D)** All of the above

QUESTION NO.6: Which of the following institutions has international monetary co-operation as its primary concern? **(A)** World Bank **(B)** Bank of international settlement **(C)** IMF **(D)** IDA

QUESTION NO.7: Exchange rate system where the central bank intervenes to smoothen out exchange rate fluctuations is known as :
(A) Free float **(B)** Managed float **(C)** Fixed rate system **(D)** Floating rate system

QUESTION NO.8: Variable rate investors are the typical users of:
(A) Internal rate floors **(B)** Interest rate caps **(C)** Interest rate collars **(D)** Both (B) and (C)

QUESTION NO.9: In using debt-equity ratio in capital structure decisions, there is an optimal capital structure where : **(A)** The WACC is minimum **(B)** The cost of debt is lowest
(C) The cost savings are highest **(D)** The marginal tax benefit is equal to marginal cost of financial distress

QUESTION NO.10: Buying and selling call and put option with different strike prices and different expiration dates are called : **(A)** Butterfly spread **(B)** Diagonal spread **(C)** Vertical spread **(D)** Short hedge

QUESTION NO.C: Mention whether the following statements are True (T) or False (F):
(i) The key issue of the theory of capital structure is to examine whether a business can change its value and cost of capital by changing its capital structure.
(ii) Leading and netting are internal hedging techniques whereas swap is an external technique for hedging
(iii) TRIPS is an international agreement on intellectual property rights.
(iv) GDR may be converted into underlying shares and vice-versa.
(v) Portfolio Balance Approach assumes that the Purchasing Power Parity (PPP) holds good.

MCQ Set 24

QUESTION NO.1 : Money market hedge involves-
(A) Borrowing in foreign currency in case of exports; **(B)** Investing in foreign currency in case of imports;
(C) Both A and B. **(D)** Neither of the above

QUESTION NO.2: The value of a share of MN Ltd. after right issue was found to be ‘ 75 /-. The theoretical value of the right is ‘ 5. The number of existing shares required for a rights share is 2. The subscription price at which the shares were issued were : **(A)** ‘ 22.50 **(B)** ‘ 40.00 **(C)** ‘ 65.00 **(D)** ‘ 82.00

QUESTION NO.3: HP Leasing Company expects a minimum yield of 10% on its investment in the leasing business. It proposes to lease a machine costing ‘ 5,00,000 for ten years. If yearly lease payments are received in advance, the lease rental to be charged by the company for lease will be :
(A) ‘ 81,372 **(B)** ‘ 73,975 **(C)** ‘ 72,370 **(D)** None of (A) , (B) , (C).

QUESTION NO.4: The aim of foreign exchange risk management is :
(A) To maximize profits. **(B)** To know with certainty the quantum of future cash flows.
(C) To minimize losses. **(D)** To earn a minimum level of profit.

QUESTION NO.5: The average daily sales of a company are ‘ 5 lac.The company normally keeps a cash balance of ‘ 80,000. If the weighted operating cycle of the company is 45 days, its working capital will be—
(A) ‘ 112.9 lac. **(B)** ‘ 113.3 lac **(C)** ‘ 5.8 lac **(D)** ‘ 225.8 lac.

QUESTION NO.6: Which of the following is/are basic precondition/s for interest arbitrage theory?
(A) Free capital mobility **(B)** No taxes
(C) No government restrictions on borrowing in foreign currency **(D)** All of the above.

QUESTION NO.7: The following various currency quotes are available from a leading bank :
Rs. / £ :- 75.31 / 75 .33 ; £ / $:- 0.6391 / 0.6398 ; $ / ¥ :- 0.01048 / 0.01052
The rate at which yen (¥) can be purchased with rupees will be-
(A) Re. 0.5070 **(B)** ‘ 1.5030 **(C)** ‘ 1.7230 **(D)** None of the above.

QUESTION NO.8: ABC Ltd. is selling its products on credit basis and its customers are associated with 5% credit risk. The annual turnover is expected at ‘ 5,00,000 if credit is extended with cost of sales at 75% of sale value. The cost of capital of the company is 15%. The net profit of the company is :
(A) ‘ 1,25,000 **(B)** ‘ 77,670 **(C)** ‘ 88,430 **(D)** ‘ 1,10,500

QUESTION NO.9: An investor has ‘ 5,00,000 to invest. What will be his expected risk premium in investing in equity versus risk-free securities in the following conditions :

Investment	Probability	Expected return
Equity	0.6	‘ 2,00,000
	0.4	(-) ‘ 1,50,000
Risk-free security	1.0	‘ 25,000

(A) ‘ 35,000 **(B)** ‘ 45,000 **(C)** ‘ 60,000 **(D)** ‘ 85,000

QUESTION NO.10: Eurodollar deposit means :
(A) Dollar deposit outside USA **(B)** Dollar deposit beyond the control of monetary authority
(C) Dollar deposit in the US and outside US **(D)** None of the above.

MCQ Set 25

(A) In each of the questions given below, one out of four is correct. Indicate the correct answer.

QUESTION NO.1 : The traditional view of financial management looks at :
(A) Arrangement of short-term and long-term funds from financial institutions.
(B) Mobilisation of funds through financial instruments
(C) Orientation of Finance function with Accounting function
(D) All of the above

QUESTION NO.2: A firm seeks to increase its current ratio from 1.5 before its closing date of the accounts. The action that would make it possible is : **(A)** Delaying payment of salaries **(B)** Increase charge for depreciation **(C)** Making cash payment to creditors **(D)** Selling marketable securities for cash at book value.

QUESTION NO.3: The dividends distributed to the shareholders and taxes paid during the year are shown as application of funds when provision for dividends and provision for taxes are treated as :
(A) Current liabilities **(B)** Non-current liabilities **(C)** Fund items **(D)** Non-fund items

QUESTION NO.4: In using debt-equity ratio in capital structure decisions, there is an optimal capital structure where : **(A)** The WACC is minimum **(B)** The cost of debt is lowest **(C)** The cost savings are highest **(D)** The marginal tax benefit is equal to marginal cost of financial distress

QUESTION NO.5: Where the firm has sufficient profits from its existing operations, the loss on the new project will: **(A)** Cause overall loss **(B)** Reduce the overall taxation liability **(C)** Increase WACC **(D)** Increase cost of debt

QUESTION NO.6: Buying and selling call and put option with different strike prices and different expiration dates are called : **(A)** Butterfly spread **(B)** Diagonal spread **(C)** Vertical spread **(D)** Short hedge

QUESTION NO.7: 'Straddle' as a type of option trading means :
(A) One call, one put, same security, same strike and same period
(B) One call, one put, same security, different strike price and same period
(C) One call, two puts, same security, same strike price and same period
(D) None of the above.

QUESTION NO.8: Which of the following is/are basic precondition/s for interest arbitrage theory ?
(A) Free capital mobility **(B)** No taxes
(C) No government restrictions on borrowing in foreign currency **(D)** All of the above

QUESTION NO.9: Global Depository Receipts (GDR) are issued to :
(A) Investors of India who want to subscribe to shares of foreign companies
(B) Only to persons of Indian origin residing in a foreign country
(C) Non resident investors against publicly traded shares of the issuing companies and denominated in US dollars.
(D) Foreign banks as security to raise foreign currency loans.

QUESTION NO.10: If the amount and timing of a foreign currency outflow are both uncertain, then the best hedging technique will be to :
(A) Buy a put option **(B)** Buy a call option **(C)** Sell a call option **(D)**Buy a forward contract

(B) In each of the questions given below, one out of four is correct. Indicate the correct answer.

QUESTION NO.1: Vishnu Steels Ltd. Has issued 30,000 irredeemable 14% debentures of ' 150 each. The cost of floatation of debentures is 5% of the total issued amount. The company's taxation rate is 40%. The cost of debentures is : **(A)** 8.95% **(B)** 7.64% **(C)** 9.86% **(D)** 8.84%

QUESTION NO.2: The balance sheet of ABC Ltd. Shows the capital structure as follows : 2,50,0 equity shares of ' 10 each; 32,000, 12% preference shares of ' 100 each; general reserve of ' 14,00,000; securities premium account ' 6,00,000; 25,000, 14% fully secured non-convertible debentures of ' 100 each.; term loans from financial institutions ' 10,00,000. The leverage of the firm is : **(A)** 67.2% **(B)** 62.5% **(C)** 59.8% **(D)** 56.3%

QUESTION NO.3: A company has obtained quotes from two different manufacturers for an equipment. The details are as follows :

Product	Cost ('Million)	Estimated life (years)
Make X	4.50	10
Make Y	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper ? The company's cost of capital is 10%. [Given : PVIFA (10%, 10 years) = 6.1446 and PVIFA (10%, 15 years) = 7.6061]
(A) Make X will be cheaper **(B)** Make Y will be cheaper **(C)** Cost will be the same **(D)** None of the above

QUESTION NO.4: According to the second method of lending by a bank as per Tandon committee suggestion, the maximum permissible bank borrowing - based on the following information is :
Total current assets ' 40,000; Current assets other than bank borrowings ' 10,000; Core current assets ' 5,000.

(A) ' 22,500 **(B)** ' 20,000 **(C)** ' 16,250 **(D)** ' 18,500

QUESTION NO.5: ABC Ltd. Is selling its products on credit basis and its customers are associated with 5% credit risk. The annual turnover is expected at ' 5,00,000 if credit is extended with cost of sales at 75% of sale value. The cost of capital of the company is 15%. The net profit of the company is :
(A) ' 1,25,000 **(B)** ' 77,670 **(C)** ' 88,430 **(D)** ' 1,10,500

QUESTION NO.6: The following various currency quotes are available from a leading bank: Rs. / £:- 75.31 / 75 .33 ; £ / $:- 0.6391 / 0.6398 ; $ / ¥ :- 0.01048 / 0.01052. The rate at which yen (¥) can be purchased with rupees will be: **(A)** Re. 0.5070 **(B)** ' 1.5030 **(C)** ' 1.7230 **(D)** None of the above.

QUESTION NO.7: Ms. S buys 10000 shares of RR Ltd. at ' 50 and obtains a complete hedge of shorting 400 Nifties at ' 2200 each. She closes out her position at closing price of next day at which point the share of RR Ltd. has dropped 2% and the Nifty future has dropped1.5% . What is the overall profit / (loss) of this set of transaction ? **(A)** Gain ' 3200 **(B)** Gain ' 2200 **(C)** Loss ' 3200 **(D)** Loss ' 2200

QUESTION NO.8: An Indian company is planning to invest in US. The US inflation rate is expected to be 3% and that of India is expected to be 8% annually. If the spot rate currently is '45 / US$, what spot rate can you expect after 5 year ? **(A)** ' 59.09 / US$ **(B)** ' 57.00 / US$ **(C)** ' 57.04 / US$ **(D)** ' 57.13 / US$

QUESTION NO.9: The stock of Pioneer company sells for ' 120. The present value of exercise price and the value of a call option are ' 108.70 and RS. 19.80 respectively. Hence the value of the put option is :
(A) ' 8.50 **(B)** ' 9.00 **(C)** ' 10 **(D)** Zero

QUESTION NO.10: The spot and 6 months forward rates of L in relation to the rupee (Re/L) are ' 77.92542/ 78.1255 and ' 78.8550/78.9650 respectively. What will be the annualized forward margin (premium with respect to Ask price) ? **(A)** 2.31% **(B)** 2.15% **(C)** 1.80% **(D)** 1.59%

MCQ Set 26

QUESTION NO.1: The value of a share of MN Ltd. after right issue was found to be ' 75. The theoretical value of the right is '5. The number of existing shares required for a rights share is 2. The subscription price at which were issued were: **(A)** ' 22.50 **(B)** ' 40.00 **(C)** ' 65.00 **(D)** ' 82.00

QUESTION NO.2: The following various currency quotes are available from a leading bank: Rs. /£ 75.31 / 75.33 £ / $:- 0.6391/ 0.6398 ; $ /¥ :- 0.01048 / 0.01052 . The rate at which yen (¥) can be purchased with rupees will be
(A) ' 0.5070 **(B)** ' 1.5030 **(C)** ' 1.7230 **(D)** None of the above.

QUESTION NO.3: HP Leasing Company expects a minimum yield of 10% on its investment in the leasing business. It proposes to lease a machine costing ' 5,00,000 for ten years. If yearly lease payments are received in advance , the lease rental to be charged by the company for lease will be :
(A) ' 81,372 **(B)** ' 73,975 **(C)** ' 72,370 **(D)** None of (A), (B), (C).

QUESTION NO.4: The average daily sales of a company are ' 5 lac. The company normally keeps a cash balance of ' 80,000. If the weighted operating cycle of the company is 45 days, its working capital will be
(A) '112.9 lac. **(B)** ' 113.3 lac **(C)** ' 5.8 lac **(D)** ' 225.8 lac.

QUESTION NO.5: ABC Ltd.'s share price at present is ' 120. After 6 months, the price will be either ' 150 with a probability of 0.8 or ' 110 with a probability of 0.2. A European call option exists with an exercise price of ' 130. The expected value of the call option at maturity date will be : **(A)** ' 16 **(B)** ' 20 **(C)** ' 10 **(D)** Zero

QUESTION NO.6: Surya Ltd. has issued 30,000 irredeemable 14% debentures of ‘ 150 each. The cost of floatation of debentures is 5% of the total issued amount. The copany’s taxation rate is 40%. The cost of debentures is :
(A) 8.95% **(B)** 7.64% **(C)** 9.86% **(D)** 8.84%

QUESTION NO.7: A company has obtained quotes from two different manufacturers for an equipment. The details are as follows :

Product	Cost (‘ Million)	Estimated life (years)
Make A	4.50	10
Make B	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper? The company’s cost of capital is 10%. [Given : PVIFA (10%, 10 years) = 6.1446 and PVIFA (10%, 15 years) = 7.6061]
(A) Make A will be cheaper **(B)** Make B will be cheaper **(C)** Cost will be the same **(D)** None of the above.

QUESTION NO.8: A company is planning to issue a discount bond with a par value of ‘ 1,000, implicit interest rate of 11.5% and a redemption period of 5 years. The company also intends to offer an early bird incentive of 1.5%. The issue price (rounded up to nearest rupee) will be [Given : PVIF (11.5%, 5 years) = 0.5803]
(A) ‘ 580 **(B)** ‘ 572 **(C)** ‘ 543 **(D)** ‘ 490

QUESTION NO.9: A company issue commercial paper for ‘ 3 crores with a maturity period of 90 days. The interest rate is 11% p.a. The net amount received by the company will be: **(A)**‘ 2.94 cr **(B)**‘ 2.92 cr **(C)**‘ 2.85 cr **(D)** ‘ 3.08 cr

QUESTION NO.10: A share Sun Ltd. is currently quoted at ‘ 55. The retained earnings per share being 40% is ‘ 4 per share. If the investors expect annual growth rate of 10%, what would be the cost of equity of Sun Ltd.?
(A) 20.5% **(B)** 21.0% **(C)** 22.0% **(D)** 23.5%

MCQ Set 27

QUESTION NO.1: Which of the following securities is not a part of money market?
(A) Commercial Paper **(B)** Call money **(C)** 91 day Treasury bill **(D)** 5 year Public Deposit.

QUESTION NO.2: Which of the following assumption is wrong under MM approach?
(A) Capital market is perfect **(B)** There is no transaction cost
(C) The dividend payout ratio is 0%. **(D)** There are no corporate taxes.

QUESTION NO.3: The aim of foreign exchange risk management is :
(A) To maximize profits. **(B)** To know with certainty the quantum of future cash flows.
(C) To minimize losses. **(D)** To earn a minimum level of profit.

QUESTION NO.4: Z Ltd. is a manufacturing company having asset turnover ratio of 2 and debt- asset ratio of 0.60 for the year ended 31st March, 2014. If its net profit margin is 5%, the Return on Equity(ROE) of the company will be : **(A)** 20% **(B)** 25% **(C)** 16.7% **(D)** data insufficient.

QUESTION NO.5: Which of the following conditions indicate that short term funds have been put to long term use? **(A)** Current Ratio is less than 1.00 **(B)** Quick Ratio is less than 1.00
(C) Total debt to Equity ratio is more than 1.00 **(D)** Net working Capital is positive.

QUESTION NO.6: A company has paid ‘ 3 as current dividend, the growth rate of dividend paid by the company is 8%. If the cost of equity is 12%, the price of the company’s share in nearest ‘ three year hence will be:
(A) ‘ 100 **(B)** ‘ 118 **(C)** ‘ 110 **(D)** ‘ 102

QUESTION NO.7: An Indian company is planning to invest in US. The US inflation rate is expected to be 3% and that of India is expected to be 8% annually. If spot rate currently is ‘ 45 / US $, what spot rate you expect after 5 years? **(A)** ’56.09 / US $ **(B)** ‘ 57.00 / US $ **(C)** ‘ 57.04 / US $ **(D)** ‘ 57.13 / US $.

QUESTION NO.8: The average daily sales of a company are ‘ 5 lac.The company normally keeps a cash balance of ‘ 80000. If the weighted operating cycle of the company is 45 days, its working capital will be
(A) ‘112.9 lac. **(B)** ‘ 113.3 lac **(C)** ‘ 5.8 lac **(D)** ‘ 225.8 lac.

QUESTION NO.9: An Indian bank wants to find their Nostro A/c with a US correspondent by US $ 500000 against INR when interbank rate is US $ 1= ’47.20/50 . The deal is struck and the overseas bank’s Vostro A/c that is being maintained with the Indian bank will be credited by :
(A) ‘ 23,600,000 **(B)** ‘ 23,750,000 **(C)** ‘ 23,675,000 **(D)** ‘ 23,712,500

QUESTION NO.10: The stock of ABC Ltd sells for ‘ 240. The present value of exercise price and value of call option are ‘ 217.40 and ‘ 39.60 respectively. What is the value of put option?
(A) ‘ 16.50 **(B)** ‘ 22.00 **(C)** ’17.00 **(D)** ’18.00

MCQ Set 28

QUESTION NO.1: The value of a share of MN Ltd. after right issue was found to be ‘ 75. The theoretical value of the right is ‘5. The number of existing shares required for a rights share is 2. The subscription price at which were issued were: **(A)** ‘ 22.50 **(B)** ‘ 40.00 **(C)** ‘ 65.00 **(D)** ‘ 82.00

QUESTION NO.2: The following various currency quotes are available from a leading bank: Rs. / £ :- 75.31 / 75.33 £ / $:- 0.6391 / 0.6398 ; $ / ¥ :- 0.01048 / 0.01052. The rate at which yen (¥) can be purchased with rupees will be:- **(A)** ‘ 0.5070 **(B)** ‘ 1.5030 **(C)** ‘ 1.7230 **(D)** None of the above.

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QUESTION NO.6: Surya Ltd. has issued 30,000 irredeemable 14% debentures of ‘150 each. The cost of floatation of debentures is 5% of the total issued amount. The copany’s taxation rate is 40%. The cost of debentures is :
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Make B	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper? The company’s cost of capital is 10%.

[Given : PVIFA (10%, 10 years) = 6.1446 and PVIFA (10%, 15 years)= 7.6061]

QUESTION NO.8: A company is planning to issue a discount bond with a par value of ' 1,000, implicit interest rate of 11.5% and a redemption period of 5 years. The company also intends to offer an early bird incentive of 1.5%. The issue price (rounded up to nearest rupee) will be [Given : PVIF (11.5%, 5 years) = 0.5803]
(A) ' 580 **(B)** ' 572 **(C)** ' 543 **(D)** ' 490

QUESTION NO.9: A company issue commercial paper for ' 3 crores with a maturity period of 90 days. The interest rate is 11% p.a. The net amount received by the company will be: **(A)**'2.94 cr **(B)**'2.92 cr **(C)**'2.85 cr **(D)** ' 3.08 cr

QUESTION NO.10: A share Sun Ltd. is currently quoted at ' 55. The retained earnings per share being 40% is ' 4 per share. If the investors expect annual growth rate of 10%, what would be the cost of equity of Sun Ltd.?
(A) 20.5% **(B)** 21.0% **(C)** 22.0% **(D)** 23.5%

MCQ Set 29

QUESTION NO.1: Which of the following securities is most liquid?
(A) Money Market instruments **(B)** Capital Market instruments **(C)** Gilt -edged securities **(D)** Index futures

QUESTION NO.2: A Ltd. has an EPS of f 3 last year and it paid out 60% of its earnings as dividends that year. This growth rate in earnings and dividends in the long term is expected to be 6%. If the required rate of return on equity for Ashrin Ltd. is 14%. Calculate the P / E ratio of A Ltd. **(A)** 7.50 **(B)** 7.65 **(C)** 7.85 **(D)** 7.95

QUESTION NO.3: The current spot rate for the US$ is Rs. 50. The expected inflation rate is 6 per cent in India and 2.5 per cent in the US. What will be the expected spot rate of the US$ a year hence?
(A) Rs.51.71 **(B)** Rs.50.71 **(C)** Rs. 57.01 **(D)** Rs. 52.71

QUESTION NO.4: DEF Ltd. placed Rs. 52 Crores in overnight call with a foreign bank for a day in overnight call. The call ruled at 5.65% p.a. What is the amount it would receive from the foreign bank the next day?
(A) Rs.52,00,70,493 **(B)** Rs. 52,00,80,493 **(C)** Rs. 52,00,80,593 **(D)** Rs. 52,00,80,693

QUESTION NO.5: The rates available in the Kolkata market are: Rs. / $ Spot :- 46.75 / 78 ; £/ $:- 0.5285 / 86. If an Indian Importer requires pounds, **calculate the rate quoted to him.**
(A) Rs.88.51/ £ **(B)** Rs. 85.51/ £ **(C)** Rs. 86.51/ £ **(D)** Rs.87.51/ £

QUESTION NO.6: While plotting a graph with risk on X -axis and expected return on Y -axis , a line drawn with co-ordinates (0, rf) and (Beta, rm) is called:
(A) Security market Line **(B)** Characteristic Line **(C)** Capital Market Line **(D)** CAPM Line

QUESTION NO.7: If the RBI intends to reduce the supply of money as part of anti inflation policy , it might
(A) Lower bank rate **(B)** Increase Cash Reserve Ratio
(C) Decrease SLR **(D)** Buy Government securities in open market

QUESTION NO.8: A Ltd., an export customer who relied on the interbank rate of Rs./ $ 46.50 / 10 requested his banker to purchase a bill for USD 80,000. **Calculate the rate to be quoted to A Ltd.**, if the banker wants a margin of 0.08%. **(A)** Rs. 45.45 **(B)** Rs. 44.44 **(C)** Rs. 46.46 **(D)** Rs. 47.47

QUESTION NO.9: --------- estimate the difference between the required rate of return and the growth rate.
(A) Retention ratio **(B)** Leverage ratio **(C)** Payout Ratio **(D)** Dividend yield ratio.

QUESTION NO.10: Two Firms P Ltd and M Ltd. are similar in all respects expect that M Ltd. uses Rs. 10,00,000 debt in its capital structure. If the corporate tax rate for these firms is 40%. Calculate the value of M Ltd. exceeds that of P Ltd. **(A)** Rs. 4,00,000 **(B)** Rs. 4,40,000 **(C)** Rs. 4,04,000 **(D)** Rs. 4,00,400

MCQ Set 30

QUESTION NO.1: A project has a 10% discounted pay back of 2 years with annual after tax cash inflows commencing from year end 2 to 4 of ‘ 400 lacs. How much would have been the initial cash outlay which was fully made at the beginning of year 1? **(A)** ‘ 400 lacs **(B)** ‘ 452 lacs **(C)** ‘ 633.80 lacs **(D)** 497.20 lacs

QUESTION NO.2: A project is expected to yield an after tax cash inflow at the end of year 2 of ‘ 150 lacs and has a cost of capital of 10%. Inflation is expected at 3% p.a. While computing the NPV of t the project, this cash flow will be taken as the following:

(A) $\frac{\frac{150}{1.03}}{(1.1)2}$ **(B)** $\frac{\frac{150}{(1.03)2}}{(1.1)2}$ **(C)** $\frac{150}{(111.33\%)2}$ **(D)** $\frac{150(1.03)2}{(1.11)2}$

QUESTION NO.3: A firm has an asset Beta = 1.3, equity Beta = 1.5. Then, which of the following is true?
(A) The firm is unlevered. **(B)** Debt Beta is also 1.3.
(C) The above data is not possible. **(D)** The firm is leveraged and the debt Beta is lower than the asset Beta.

QUESTION NO.4: **For a portfolio containing three securities A, B and C,** correlation coefficients P_{AB} = +0.4; ñAC = +0.75; P_{BC} = - 0.4; S.D.$_A$ = 9; S.D.$_B$ = 11; S.D.$_C$ = 6; weights A = 0.2; weights B = 0.5; weights C = 0.3; the covariance of securities A and B is **(A)** 3.96 **(B)** 24.75 **(C)** 39.6 **(D)** 247.5

QUESTION NO.5: A ‘ 1,000 per value bond bearing a coupon rate of 14% matures after 5 years. The required rate of return on this bond is 10%. The value of the bond (to the nearest rupee) will be:
(A) 1,125 **(B)** 1,152 **(C)** 1,512 **(D)** 862.20

QUESTION NO.6: **The following information is available for a mutual fund:**
Return - 13% ; Risk (S.D.) - 16% ; Beta - 0.90 ; Risk Free Rate - 10%. Treynor's Ratio of the mutual fund is:
(A) 3.85 **(B)** 4.43 **(C)** 3.33 **(D)** 3.73

QUESTION NO.7: The 90 day interest rate is 1.85% in USA and 1.35% in the UK and the current spot exchange rate is $ 1.6 / £. The 90-day forward rate is: **(A)** $ 1.607893 **(B)** $ 1.901221 **(C)** $ 1.342132 **(D)** $ 1.652312

QUESTION NO.8: The intercept of the Security Market Line (SML) on the y axis is
(A) E(Rm) - Rf **(B)** 1 / [E(Rm) - Rf] **(C)** Rf - E(Rm) **(D)** Rf

QUESTION NO.9: A mutual fund wants to hedge its portfolio of shares worth ‘ 10 crore using the NIFTY Index Futures. The contract size is 100 times the index. The index is currently quoted at 6840. The Beta of the portfolio is 0.8. The beta of the index may be taken as 1. What is the number of contracts to be traded?
(A) 110 **(B)** 116 **(C)** 145 **(D)** 123

QUESTION NO.10: A call option at a strike price of ‘ 200 is selling at a premium of ‘ 24. At what share price on maturity will it break-even for the buyer of the option? **(A)** ‘ 200 **(B)** 176 **(C)** ‘ 224 **(D)** ‘ 248

MCQ Set 31

QUESTION NO.1: A company has ‘ 7 crore available for investment. It has evaluated its options and has found that only four investment projects given below have positive NPV. All theseninvestments are divisible and get proportional NPVs.

Project	Initial Investment (‘ crore)	NPV (‘ crore)	PI
W	6.00	1.80	1.30
X	3.00	0.60	1.20
Y	2.00	0.50	1.25
Z	2.50	1.50	1.60

Which investment projects should be selected?

(A) Project W in full and X in part **(B)** Project Z in full and W in part
(C) Project W in full and Z in part **(D)** Project Z and Y in full and X in part

QUESTION NO.2: An investor is bullish about X Ltd. which trades in the spot market at ‘ 1,150. He buys two call option contracts with three months (one contract is 100 shares) with a strike price of ‘ 1,195 at a premium of ‘ 35 per share. Three months later, the share is selling at ‘ 1,240. Net profit / loss of the investor on the position will be **(A)** ‘ 1,000 **(B)** ‘ 16,000 **(C)** ‘ 11,000 **(D)** ‘ 2,000

QUESTION NO.3: Duhita Ltd. intends to buy an equipment. Quotes are obtained for two different makes A and B as given below:

	Cost (‘ Million)	Estimate life (years)
A	4.5	10
B	6.00	15

Ignoring the operations and maintenance costs which will be almost the same for A and B, which one would be chapter? The company's cost of capital is 10% [Given: PVIFA (10%, 10 yrs.) = 6.1446 and PVIFA (10%, 15 years) = 7.6061] **(A)** A will be cheaper **(B)** B will be cheaper
(C) Cost will be the same **(D)** They are not comparable and therefore nothing can be said about which is cheaper.

QUESTION NO.4: BLC Ltd. a valued customer engaged in import business, is in need to remit EURO 1 million to his European exporter. The spot rate of Rs. / US$ is ‘ 65.47 / 65.57 and that of US$ / EURO is $ 0.8053 / 0.8057. What rate will a banker quote to BLC Ltd. if the bank's margin is 0.50%?
(A) ‘ 53.09 **(B)** ‘ 53.067 **(C)** ‘ 53.01 **(D)** ‘ 52.99

QUESTION NO.5: Given for a project: Annual Cash inflow = ‘ 80,000, Useful life = 4 years ; Undiscounted Pay-Back period = 2.855 years ; What is the cost of the project?
(A) ‘ 1,12,084 **(B)** ‘ 2,28,400 **(C)** ‘ 9,13,600 **(D)** None of the above

QUESTION NO.6: A project had an equity beta of 1.4 and is to be financed by a combination of 25% Debt and 75% Equity. Assume Debt Beta as zero, Rf = 12% and Rm = 18%.. Hence, the required rate of return of the project is
(A) 16.72% **(B)** 18.30% **(C)** 17.45% **(D)** 12.00%

QUESTION NO.7: An Indian Company is planning to invest in the US. The annual rates of inflation are 8% in India and 3% in USA. If the spot rate is currently ‘ 60.50 / $, what spot rate can you expect after 5 years, assuming the inflation rates will remain the same over 5 years? **(A)** ‘ 88.89 **(B)** ‘ 54.95 **(C)** ‘ 76.68 **(D)** 76.10

QUESTION NO.8: Which of the following securities is most liquid?
(A) Money Market instruments **(B)** Capital Market instruments **(C)** Gilt-edged securities **(D)** Index futures

QUESTION NO.9: While plotting a graph with risk on X-axis and expected return on Y-axis, a line drawn with co-ordinates (0, rf) and (Beta, rm) is called
(A) Security Market Line **(B)** Characteristic Line **(C)** Capital Market Line **(D)** CAPM Line

QUESTION NO.10: If the RBI intends to reduce the supply of money as part of anti-inflation policy, it might

(A) Lower the bank rate **(B)** Increase the Cash Reserve Ration
(C) Decrease the SLR **(D)** Buy Government securities in the open market.

MCQ Set 32

QUESTION NO.1: M buys a call option contract for a premium of Rs. 200. The exercise price is RS. 25 and the current market price of the share is Rs. 22. If the share price after three months reaches Rs. 30, what is the profit made by M on exercising the option? A contract is for 100 shares. Ignore transaction charges.
(A) Rs. 200 **(B)** Rs. 300 **(C)** Rs. 100 **(D)** Rs. 600

QUESTION NO.2: You are a forex dealer in India. Rates of rupee and pound in the international market are US $ 0.01386952 and US $1.3181401 respectively. **What will be your direct quote of £ (pound) to your customer.**
(A) Rs.54.6987 **(B)** Rs.71.1408 **(C)** Rs.95.0386 **(D)** Rs.0.0105

QUESTION NO.3: 'Bank rate' published by the Reserve Bank refers to
(A) the repo rate transacted by RBI.
(B) the rate at which housing or other long term loans shall be sanctioned by scheduled banks to their customers.
(C) The rate at which RBI is willing to buy or rediscount bills of exchange or other commercial paper.
(D) the rate which RBI uses as cut-off for auction of Government securities.

QUESTION NO.4: An investor has invested in a mutual fund when the NAV was Rs. 15.50 per unit. After 90 days the NAV was Rs. 14.45 per unit. During the period the investor got a cash dividend of Rs. 1.35 per unit and capital gain distribution of Re. 0.20. The annualized return based on 360 days year count will be
(A) 3.23% **(B)** 12.92% **(C)** 0.8075% **(D)** 16.45%

QUESTION NO.5: Initial investment of a project is Rs. 25 lakh. Expected annual cash flows are Rs. 6.5 lakh for 10 years Cost of capital is 15%. The annuity factor for 15% for 10 years is 5.019. **The Profitability Index of the project** will be **(A)** 1.305 **(B)** 3.846 **(C)** 0.26 **(D)** 0.7663

QUESTION NO.6: Rate of inflation = 5.1%, â = 0.85, Risk premium = 2.295%, Market return = 12%. The real rate of return will be: **(A)** 4.2% **(B)** 11.70% **(C)** 6% **(D)** 5.95%

QUESTION NO.7: In a constant dividend model, the following estimates the difference between the required rate of return and the growth rate : **(A)** Earnings Retention ratio **(B)** Leverage ratio
(C) Dividend Pay-out ratio **(D)** Dividend yield ratio

QUESTION NO.8: Presently, a company's share price is Rs. 120. After 6 months, the price will be either Rs. 150 with a probability of 0.8 or Rs. 110 with a probability of 0.2. A call option exists with an exercise price of Rs. 130. What will be the expected value of call option at maturity date? **(A)** Rs. 20 **(B)** Rs. 16 **(C)** Rs. 12 **(D)** Rs. 10

QUESTION NO.9: A stock is currently selling at Rs. 270. The call option to buy the stock at Rs. 265 costs Rs. 12. What is the Time Value of the option ? **(A)** Rs. 5 **(B)** Rs. 17 **(C)** Rs. 7 **(D)** None of (A), (B) or (C)

QUESTION NO.10: A Ltd., an export customer requested his banker B to purchase a bill for USD 80,000. Calculate the rate to be quoted to A Ltd. if B wants a margin of 0.08%, given that the inter bank rate is Rs./ $ 71.50 / 10.
(A) Rs. 71.1569 **(B)** Rs. 71.0431 **(C)** Rs.71.5572 **(D)** Rs.71.4428

MCQ Set 33

QUESTION NO.1: Annual Cost Saving- ' 4,00,000; Useful life - 4 years; Cost of the Project - ' 11,42,000; The Pay back period would be **(A)** 2 years 8 months **(B)** 2 years 11 months **(C)** 3 years **(D)** 1 year 10 months

QUESTION NO.2: **There are 4 investments**

	X	Y	Z	U
The standard deviation is	37,947	44,497	42,163	41,997
Expected net present value (‘)	90,000	1,06,000	1,00,000	90,000

Which investment has the highest risk? **(A)** X **(B)** Y **(C)** X **(D)** U

QUESTION NO.3: The spot rate of the US dollar is ‘ 65.00 / USD and the four month forward rate is 65.90 / USD. The annualized premium is: **(A)** 4.2% **(B)** 5.1% **(C)** 6.0% **(D)** 6.4%

QUESTION NO.4: A stock is currently sells at ‘ 350. The put option to sell the stock sells at ‘ 380 with a premium of ‘ 20. The time value of option will be: **(A)** ‘ 10 **(B)** ‘ -10 **(C)** ‘ 20 **(D)** ‘ 0

QUESTION NO.5: An investor owns a stock portfolio equally invested in a risk free asset and two stocks. If one of the stocks has a beta of 0.75 and the portfolio is as risky as the market, the beta of the stock in portfolio is
(A) 2.12 **(B)** 2.25 **(C)** 2.56 **(D)** 2.89

QUESTION NO.6: You are given the following information: required rate of return on risk free security 7%; required rate of return on market portfolio of investment 12%; beta of the firm 1.7. The cost of equity capital as per CAPM approach is : **(A)** 16.3% **(B)** 18.0% **(C)** 18.60% **(D)** 19%

QUESTION NO.7: The following statement is true in the context of rupee-dollar exchange rate with ri denoting interest rate in India and ru denoting interest rate in the US.
(A) Rupee will be at forward discount if ri > ru **(B)** Rupee will be at forward premium if ru > ri
(C) Rupee will be forward premium if ri > ru **(D)** Rupee will be at par with dollar if ri = ru.

QUESTION NO.8: The following is not a systematic risk.
(A) Market Risk **(B)** Interest Rate Risk **(C)** Business Risk **(D)** Purchasing Power Risk

QUESTION NO.9: The following statement is true: (If ‘r’ denotes the correlation coefficient)
(A) r = +1 implies full diversification of securities in a portfolio **(B)** r = -1 implies full diversification of securities in a portfolio **(C)** r = 0 implies an ideal situation of zero risk **(D)** ‘r’ is independent of diversification. Nothing can be inferred based on r.

QUESTION NO.10: The following is not a feature of Capital Market Line:
(A) There is no unsystematic risk. **(B)** The individual portfolio exactly replicates market portfolio in terms of risk and reward. **(C)** Estimates portfolio return based on market return. **(D)** Diversification can minimize the individual portfolio risk.

MCQ Set 34

QUESTION NO.1: Dividend-Payers Ltd. has a stable income and stable dividend policy. The average annual dividend payout is ‘ 27 per share (Face Value = ‘100). You are required to find out Dividend payout in year 2, if the company were to have an expected market price of ‘160 per share at the existing cost of equity. [The market price in year 1 is ‘ 150] **(A)** ’28.88 **(B)** ‘ 26.86 **(C)** ‘ 28.80 **(D)** ‘ 26.98

QUESTION NO.2: The ratio of current assets (‘ 3,00,000) to current liabilities (‘2,00,000) is 1.5 : 1. The accountant of this firm is interested in maintaining a current ratio of 2 : 1 by paying some part of current liabilities. Hence, the amount of current liabilities which must be paid for this purpose is:
(A) ‘ 1,00,000 **(B)** ‘ 2,00,000 **(C)** ‘ 2,50,000 **(D)** 1,50,000

QUESTION NO.3: The interest rate in Germany is 11% and the expected inflation rate is 5% . The British interest rate is 9% . How much is the expected inflation rate in Britain? **(A)** 3.0% **(B)** 3.1% **(C)** 4.5% **(D)** 2.9%

QUESTION NO.4: Annual usage of a firm is 3,60,000 units and 2 to 4 days are taken in receiving delivery of inventory after placing an order. **Calculate Re-order level,** if the reasonable expected stock out is 100 units per day. (Assume 1 year = 360 days) **(A)** 3000 units **(B)** 3300 units **(C)** 2500 units **(D)** 3500 units

QUESTION NO.5: A project had an equity beta of 1.2 and was going to be financed by a combination of 30% debt and 70% equity (assume debt beta = 0). Hence, the required rate of return of the project is (assume Rf = 10% and Rm =18%) **(A)** 16.27% **(B)** 17.26% **(C)** 16.72% **(D)** 12.76%

QUESTION NO.6: M/s. Fine Dress Ltd. has sales of '800 lakhs and the variable costs amount to 62.5% of sales. The Company has fixed cost of ' 100 lakhs. If the sales of the Company increase by 5% from the existing level, what will be the per cent change in the EBIT? **(A)** 7.5% **(B)** 8.7% **(C)** 7.9% **(D)** 10.9%

QUESTION NO.7: **Consider the following quotes.** Spot (Euro/ Pound) = 1.6543 / 1.6557; Spot (Pound / NZ$) = 0.2786 / 0.2800 Calculate the % spread on the Euro/Pound Rate.**(A)** 0.085% **(B)** 0.0085% **(C)** 0.85%**(D)** 0.00085%

QUESTION NO.8: A company has expected Net Operating Income - ' 2,40,000; 10% Debt - '7,20,000 and Equity Capitalisation rate - 20%; what is the weighted average cost of capital for the company?
(A) 0.15385 **(B)** 0.13585 **(C)** 0.18351 **(D)** 0.15531

QUESTION NO.9: The P/V ratio of a firm dealing in precision instruments is 50% and margin of safety is 40%. Calculate net profit, if the sales volume is ' 50,00,000. **(A)** 1,00,000 **(B)** 5,00,000 **(C)** 10,00,000 **(D)** ' 6,00,000

QUESTION NO.10: State if each of the following sentences is T (= true) or F (= false):
(i) Deterministic model of financial planning yield multiple — point estimate.
(ii) Risk under transaction exposure can be minimized using Money Market Hedge.
(iii) Flexibility is one among the performance indicators of the organisation.
(iv) A project is a "One-shot" major undertaking.
(vi) Fund Managers use futures as a more economical way of achieving their portfolio goals.
(vii) The profit or loss associated with converting foreign currency dominated assets/liabilities in reporting currency is called Economic Exposure.
(vii) TRIMs are the rules, a country applies to the domestic regulations to promote Foreign investment, often as a part of an Industrial Policy.

MCQ Set 35

QUESTION NO.1: MN Ltd. has earning before interest and taxes of ' 36 crores. The company has 7% debentures of ' 72 crores. Cost of equity is 12.5%. Ignore taxes. What is the overall cost of Capital?
(A) 11.26% **(B)** 11.20% **(C)** 11.50% **(D)** 11.28%

QUESTION NO.2: R Ltd. earns ' 8 per share, has capitalisation rate of 10% and has a return on investment at the rate of 18%. According to Walter's Model, what should be the price per share at 28% dividend pay out ratio?
(A) ' 120 **(B)** ' 125 **(C)** ' 126.08 **(D)** ' 125.08

QUESTION NO.3: MAYANK Ltd. employs 12% as nominal required rate of return to evaluate its new investment projects. In the recent meeting of the Board of Directors, it has been decided to protect the interest of shareholders against purchasing power loss due to inflation. The expected inflation rate in the economy is 5%. What is the real discount rate? **(A)** 6.67% **(B)** 6% **(C)** 5% **(D)** 6.5

QUESTION NO.4: What is the opportunity cost of not taking a discount, when the credit terms are 1 / 15 net 30? Assume 1 year = 365 days. **(A)** 29.58% **(B)** 24.58% **(C)** 24.65% **(D)** 29.68%

QUESTION NO.5: An Indian Company is planning to invest in the US. The rates of inflation are 8% in India and 3% in USA. If the spot rate is currently '60.50 / $, what spot rate can you expect after 5 years, assuming the inflation rates will remain the same over 5 years? **(A)** ' 76.68 **(B)** ' 75.90 **(C)** ' 74.00 **(D)** ' 76.10

QUESTION NO.6: Operating Leverage 2 ; Combined Leverage 5 ; Profit / volume ratio 40% ; Tax rate 40%, Earnings after tax ' 7.20 lakhs. **Calculate the percentage drop in Sales to make the EPS zero**.
(A) 10% **(B)** 15% **(C)** 20% **(D)** 12%

QUESTION NO.7: From the following quotes of a bank, determine the rate at which Yen can be purchased with Rupees. Rs. / £ Sterling - 75.31 - 33 ; £ Sterling / Dollar ($) - 1.563 - 65 ; Dollar ($) / Yen (¥) - 1.048 / 52 [per 100 Yen) **(A)** ' 124.02 **(B)** '142.02 **(C)** ' 412.02 **(D)** ' 214.02

QUESTION NO.8: Spot (Euro / Pound) = 1.6543 / 1.6557 ; Spot (Pound / NZ $) = 0.2786 / 0.2800
What is the % Spread on the Euro / Pound rate? **(A)** 0.085% **(B)** 0.805% **(C)** 0.508% **(D)** 0.058%

QUESTION NO.9: State if each of the following sentences are T (= true) or F (= false):

(i) The 'sale and lease back' is usually preferred by firms having fixed assets but shortage of funds.
(ii) WTO, governed by a ministerial conference, meets every three years.
(iii) The sensitivity analysis deals with the consideration of sensitivity of the NPV in relation to different variables contributing to the NPV.
(iv) PPP theory takes into account only the movement of goods and services and not that of capital.
(v) A call option is said to be 'in-the-money' if the stock price is more than the strike price.
(vi) Working capital leverage measures the responsiveness of ROCE for changes in current assets.
(vii) The maturity date of Commercial Paper (CP) should not exceed the date beyond the date upto which credit rating is valid.
(viii) In the case of independent projects, if the NPV of the project is zero, IRR is equal to cost of Capital.
(ix) Cash Value Added (CVA) is a measurement that finds the excess of Operating Cash Flow over the capital employed.

MCQ Set 36

QUESTION NO.1: X Ltd. issued ' 100, 12% Debentures 5 years ago. Interest rates have risen since then, so that debentures of the company are now selling at 15% yield basis. What is the current expected market price of the debentures? **(A)** ' 75 **(B)** ' 80 **(C)** ' 90 **(D)** ' 85

QUESTION NO.2: Given:

	Last year	**Current year**
Sales unit	2,000	2,800
Selling price per unit	' 10	' 10
EPS	' 9.60	' 38.40

What is the Degree of Combined Leverage? **(A)** 6.5 **(B)** 5.6 **(C)** 7.5 **(D)** 5.7

QUESTION NO.3: MI Ltd. has annual sales of '365 lakhs. The company has investment opportunities in the money market to earn a return of 15% per annum. If the company could reduce its float by 3 days, what would be the increase in company's total return? (Assume 1 year = 365 days) **(A)**' 45,000 **(B)**' 40,000 **(C)** ' 54,000 **(D)** '46,000

QUESTION NO.4: In the inter-bank market, the DM is quoting ' 21.50. If the bank charges 0.125% commission for

TT selling, what is the TT selling rate? **(A)** ‘ 21.47 / DM **(B)** ‘ 21.53/ DM **(C)** ‘ 22.78 / DM **(D)** ‘ 23.45 / DM

QUESTION NO.5: The required rate of return on equity is 24% and cost of debt is 12%. The company has a capital structure mix of 80% of equity and 20% debt. What is the overall rate of return, the company should earn? Assume no tax. **(A)** 21.6% **(B)** 14.4% **(C)** 18.6% **(D)** 17.22%

QUESTION NO.6: Consider the following quotes: Spot (Euro/Pound) = 1.6543 / 1.6557; Spot (Pound / NZ's) = 0.2786 / 0.2800. Calculate the % spread on the Euro/Pound Rate.
(A) 0.0805% **(B)** 0.0080% **(C)** 0.8501% **(D)** 0.0850%

QUESTION NO.7: Initial Investment ‘ 20 lakh. Expected annual cash flows ‘ 6 lakh for 10 years. Cost of capital @ 15%. **What is the Profitability Index?** The cumulative discounting factor @ 15% for 10 years = 5.019.
(A) 1.51 **(B)** 1.15 **(C)** 5.15 **(D)** 0.151

QUESTION NO.8: **The following details relate to an investment proposal of XYZ Ltd.**
Investment outlay— ‘ 100 lakhs; Lease Rentals are payable at ‘ 180 per ‘ 1,000; Term of lease - 8 years; Cost of capital—12%. What is the present value of lease rentals, if lease rentals are payable at the end of the year? [Given PV factors at 12% for years (1 -8) is 4.9676.] **(A)** ‘98,14,680 **(B)** ‘89,41,680 **(C)**‘ 94,18,860 **(D)** ‘ 96,84,190

QUESTION NO.9: State if each of the following sentences is T (= true) or F (= false):
(i) Fixed capital is a financial lubricant which keeps business operation going.
(ii) Forward Exchange Rate contract is for the purchase or sale of a specified quantity of a specified currency price as agreed today.
(iii) Stochastic (irregular) Model is developed to avoid the problems associated with the EOQ model.
(iv) TRIPS sets down minimum standards for many forms of Intellectual Property (IP) regulations.
(v) Risk Adjusted Discount Rate (RADR) = Risk Free Return * Premium for facing the risk.
(vi) Buyout refers to the transfer of management control by creating a separate business by separate business by separating it from their existing owners.
(vii) Feasibility study is included in implementation phase of project development cycle.
(viii) Price of contract changes every day in Futures.
(ix) Interest Rate Guarantees (IRG) is an option contract.

MCQ Set 37

QUESTION NO.1: Return on Equity (ROE) is computed as
(A) (NP Ratio x Assets Turnover Ratio) / Equity Multiplier **(B)** (NP Ratio x Assets Turnover Ratio) x Equity Multiplier **(C)** (NP Ratio x Equity Multiplier) + Assets Turnover Ratio **(D)** (NP Ratio + Assets Turnover Ratio) + Equity Multiplier

QUESTION NO.2: The ratio of Current Assets (‘9,00,000) to Current liabilities (‘6,00,000) is 1.5 : 1.The accountant of this firm is interested in maintaining a current ratio of 2:1 by paying some part of current liabilities. Hence, the amount of current liabilities which must be paid for this purpose is:
(A)‘ 3,00,000 **(B)** ‘ 2,00,000 **(C)**‘ 6,00,000 **(D)** ‘ 4,00,000

QUESTION NO.3: Annual usage of a firm is 7,30,000 units and 3 to 5 days are taken in receiving delivery of inventory after placing an order. Calculate Re-order Level, if the reasonable expected stock out is 500 units per day. (Assume 1 year = 365 days) **(A)** 10,000 units **(B)** 8,000 units **(C)** 80,000 units **(D)** 1,00,000 units

QUESTION NO.4: EXCEL Ltd. projects that cash outlays of ‘ 37,50,000 will occur uniformly throughout the coming year. Excel plans to meet its cash requirements by periodically selling marketable securities from its portfolio. The firm's marketable securities are invested to earn 12% and the cost per transaction of converting securities to

cash is ‘ 40. According to Baumol, what is the optimal transaction size of marketable securities to cash?
(A) ‘ 25,000 **(B)** ‘ 30,000 **(C)** ‘ 50,000 **(D)** ‘ 35,000

QUESTION NO.5: Presently, the company's share price is ‘ 120. After 6 months, the price will be either ‘150 with a probability of 0.8 or ‘ 110 with a probability of 0.2. A European call option exists with an exercise price of ‘ 130. What will be the expected value of call option at maturity date? **(A)** 02 **(B)** ‘ 16 **(C)** ‘ 18 **(D)** ‘10

QUESTION NO.6: Consider the following quotes: Spot (Euro / Pound) = 1.3904 - 1.3908; Spot (Pound / NZ $) = 0.5020 — 0.5040 ; What will be the possible % spread on the cross rate between Euro and NZ $?
(A) 0.40 **(B)** 0.39 **(C)** 0.41 **(D)** 0.43

QUESTION NO.7:A project had an equity beta of 1.4 and was going to be financed by a conbination of 25% Debt and 75% Equity (Assume Debt Beta as zero). Hence, the required rate of return of the project is
(A) 16.72% **(B)** 18.30% **(C)** 17.45 **(D)** 12.00
(Assume Rf, = 12% and Rm = 18%).

QUESTION NO.8: **Given for a project:** Annual Cash inflow ’80,000; Useful life 4 years; Pay-Back period 2.855 years; What is the cost of the project? **(A)** ‘ 2,28,500 **(B)** ‘ 2,28,400 **(C)** ‘ 2,28,600 **(D)** ‘ 2,28,700

QUESTION NO.9: State if each of the following sentences are T (= true) or F (= false):
(i) A firm adopts financial contingency planning in situations of prosperity.
(ii) Cost of Retained Earnings: = (Cost of Equity) x (1-Rate of Tax) x (1-Cost of purchasing new securities or brokerage cost)
(iii) Securitisation is the conversion of non-tradable assets into marketable securities.
(iv) Under favourable conditions, Financial Leverage decreases EPS.
(v) Sensitivity analysis refers to studying the relationship between risks and return.
(vi) Preferred stock, a hybrid corporate security, pays a variable dividend depending on the corporation's earnings.
(vii) External Commercial Borrowing (ECB) is the amount borrowed by the Government through designated agents from All India Financial Institutions (AIFIs).
(viii) European Option can be exercised any time during option period.
(ix) FPA policy is a minimum liability insurance and gives only a partial cover for losses.

MCQ Set 38

QUESTION NO.1: Madura Steel earns 12% on the equity. The growth rate of dividends and earnings is 6%. The book value per share is ‘ 60. If the cost of equity is 14% , which of the following is the market price of the share of company, according to the Marakon Model of Valuation? **(A)** ‘36 **(B)** ‘39 **(C)** ‘45 **(D)** ‘48

QUESTION NO.2: R Limited requires ‘ 3 Million in cash for meeting its transaction needs over the next 6 months, its planning horizon for liquidity decision. The company currently has the amount in the form of marketable securities. The cash payment will be made evenly over the six month period. R Ltd. earns 12% annual yield on its marketable securities. Conversion of marketable securities into cash entails a fixed cost of ‘1,000 per transaction. What will be the optimal conversion size as per Baumol model of cash management?
(A) ‘3,15,628. **(B)** ‘3,16,228 **(C)** ‘3,17,678 **(D)** ‘3,18,428

QUESTION NO.3: The price of Swedish Krones is $ 0.14 today. If it appreciates by 10% today, how many Krones a dollar will buy tomorrow? **(A)** 6.49351 **(B)** 4.69351 **(C)** 3.49513 **(D)** 5.64913

QUESTION NO.4: Calculate the future value of ‘1,000 invested in State Bank Cash Certificate scheme for 2 years @5.5% p.a., compounded semi- annually. **(A)** ‘1,114.62 **(B)** ‘1,104.62 **(C)** ‘1,401.51 **(D)** ‘1,141.51

QUESTION NO.5: A firm has sales of '75,00,000 variable cost of '42,00,000 and fixed cost of '6,00,000.It has a debt of '45,00,000 at 9% interest and equity of '55,00,000. At what level of sales, the EBIT of the firm will be equal to zero? **(A)** '28,48,500 **(B)** '28,84,500 **(C)** '22,84,500 **(D)** '26,48,500

QUESTION NO.6: The sterline is trading at $ 1.6400 today. Inflation U.K. is 3.8% and that in U.S.A. is 2.9%. What would be the spot rate ($ / £) after 2 years? **(A)** 1.5792 **(B)** 1.5892 **(C)** 1.6117 **(D)** 1.6002

QUESTION NO.7: The following various currency quotes are available from the State Bank of India: Rs. /£ - 81.31 / 81.33 ; £ / $ - 0.6491 / 0.6498; $ / ¥ - 0.01098 / 0.01102. The rate at which yen(¥) can be purchased with rupees will be: **(A)** 1.5270 **(B)** 1.5890 **(C)** 0.5824 **(D)** 0.7824

QUESTION NO.8: State if each of the following sentences is T (=true) or F (= false):

(i) Corporate tax rate does not affect cost of debt.
(ii) IRR and NPV always give the same profitability ranking.
(iii) Retention ratio is the product between growth rate and rate of return on investments.
(iv) Low financial leverage indicates high financial risk and vice - versa.
(v) If Profitability Index is 1, cash inflow and cash outflow would be equal.
(vi) A currency swap converts a stream of cash flow from one currency to another without exchange rate risk.
(vii) An investor expecting a fall in interest rates buys a floor and also a cap.
(viii) Commercial paper introduced by RBI in early 1990, is 'a secured promissory note' tied to any specific transaction.
(ix) A call option is 'in-the money' when the price of the underlying asset is below the exercise price of the call.

QUESTION NO.9: Match the assumptions to the different 'Capital Structure theories':

Assumptions

(i) Cost of debt and cost of equity are constant, and overall cost of capital decreases with increase in leverage.
(ii) Cost of debt and overall cost of capital are constant, and cost of equity will change with the degree of leverage.
(iii) Value of firm increases with increase in financial leverage upto a certain limit only.
(iv) Overall cost of capital and the value of firm are independent of the capital structure.

Capital Structure theories

(A) Modigliani- Miller approach
(B) Traditional approach
(C) Net Income approach
(D) Net operating Income approach

MCQ Set 39

QUESTION NO.1: **The capital of PQR Limited is as follows :**

90% preference shares of ' 10 each	' 3,00,000
Equity shares of ' 10 each	' 8,00,000
Following further information is available :	
Profit after Tax	' 2,70,000
Equity Dividend paid	20%
The market price of equity shares	' 40 each

Then the EPS and PE ratio are : **(A)** ' 3.12 and 10.80 **(B)** ' 3.33 and 10.34 **(C)** ' 4.51 and 12.56 **(D)** ' 3.04 and 13.16

QUESTION NO.2: A project has an equity beta of 1.2 and is going to be financed by 30% debt and 70% equity. Assume debt beta =0, Rf = 10% and Rm = 18%. What is the required rate of return?
(A) 8.4% **(B)** 18% **(C)** 16.72% **(D)** 10%

QUESTION NO.3: A Limited is presently selling 1,00,000 units of its products. The selling price per unit is ‘ 25 and variable cost per unit is ‘ 15. The fixed cost is ‘ 5,00,000. The financial breakeven point for the company is ‘ 1,50,000. What will be the percentage change in EBIT required to increase EPS by 20%?
(A) 10% **(B)** 12% **(C)** 14% **(D)** 20%

QUESTION NO.4: Zoom Technologies Limited issued 1,00,000, 14% debentures of ‘ 100 each, redeemable after 5 years at ‘ 110 each. The commission payable to under writers and brokers is 10%. The after-tax cost of debt, assuming a tax rate of 45%, will be: **(A)** 15.1% **(B)** 12.54% **(C)** 10% **(D)** 11.7%

QUESTION NO.5: An investor wrote a naked call option. The premium was ‘ 2.50 per share and the market price and exercise price of the share are ‘ 37 and ‘ 41 respectively. The contract being for 100 shares, what is the amount of margin under First Method, that is required to be deposited with the clearing house?
(A) ‘ 590 **(B)** ‘ 250 **(C)** ‘ 740 **(D)** ‘ 400

QUESTION NO.6: According to Gordon’s dividend capitalisation model, if the share price of a firm is ‘ 43, its dividend pay-out ratio is 60%, cost of equity is 9%, ROI is 12% and the number of shares are 12,0, what will be the net profit of the firm? **(A)** ‘ 15,480 **(B)** ‘ 23,220 **(C)** ‘ 36,120 **(D)** ‘ 54,180

QUESTION NO.7: You are a forex dealer in India. Rates of rupee and Euro in the international market are US $ 0.01962905 and US $ 1.335603 respectively. What will be your direct quote of e (euro) to your customer?
(A) ‘ 69.5900 **(B)** ‘ 68.0420 **(C)** ‘ 65.1010 **(D)** ‘ 70.9050

QUESTION NO.8: The interest rate in the United States is 5%, in Japan, the comparable rate is 1.5%. The spot rate for the yen is $ 0.012067821. If the interest rate parity holds, what is the 90-day forward rate on the Japanese yen? **(A)** $ 0.01248 **(B)** $ 0.01359 **(C)** $ 0.01350 **(D)** $ 0.01200

QUESTION NO.9: An investor buys a call option contract for a premium of ‘ 200. The exercise price is ‘ 20 and the current market price of the share is ‘ 17. If the share price after three months reaches ‘ 25, what is the profit made by the option holder on exercising the option? Contract is for 100 shares. Ignore the transaction charges.
(A) ‘ 200 **(B)** ‘ 250 **(C)** ‘ 300 **(D)** ‘ 350

QUESTION NO.10: State if each of the following sentences is T (= true) or F (= false) :

(i) The amount of cheques issued by a company not yet paid out is referred to as net float.
(ii) Annual capital charge method is used for evaluating projects having different life spans.
(ii) According to Modigliani and Miller Theory on dividends, dividend pay-out ratio is irrelevant for all firms.
(v) Simulation is done for capturing the different possible outcomes and determining the probability of a particular event happening.
(v) A call option is the right to sell, whereas a put option is a right to buy.
(v) An acquisition of a business by using equity fund and a small amount of debt is known as leveraged buy out.
(v) Global Depository Receipts are issued to investors in India, who want to subscribe to shares of foreign companies.

MCQ Set 40

QUESTION NO.1: What is the opportunity cost of not taking a discount, when the credit terms are 2 / 20 net 45? Assume 1 year = 360 days **(A)** 24.9% **(B)** 29.4% **(C)** 22.9% **(D)** 29.2%

QUESTION NO.2: E Limited has earnings before interest and taxes (EBIT) of ‘ 10 million at a cost of 7%., Cost of equity is 12.5%. Ignore taxes. What is the overall cost of capital? **(A)** 11.26% **(B)** 11.62% **(C)** 16.12% **(D)** 12.61%

QUESTION NO.3: S Limited earns ' 6 per share, has capitalisation rate of 10% and has a return on investment at the rate of 20%. According to Walter's model, what should be the price per share at 30% dividend payout ratio?

(A) '120 **(B)** '102 **(C)** '112 **(D)** '106

QUESTION NO.4: On January 1, 2012, X Limited's begining inventory was '4,00,000. During 2012, Ltd. purchased '19,00,000 of additional inventory. On December 31, 2012, X Ltd.'s ending inventory was '5,00,000. What is X Ltd.'s operating cycle in 2012, if it is assumed that the average collection period is 42 days? (1 year =36 days).

(A) 123.3 days **(B)** 132.3 days **(C)** 126.3 days **(D)** 133.3 days

QUESTION NO.5: **From the following,** what is the amount of sales of A Ltd.?

Financial Leverage — 3:1; Interest—'200; Operating Leverage — 4 : 1; Variable Cost as a % of sales — 66.67%.

(A) '3,600 **(B)** '6,300 **(C)** '6,030 **(D)** '3,060

QUESTION NO.6: The dollar is currently trading at '40. If rupee depreciates by 10%, what will be the spot rate?

(A) '0.0525 **(B)** '0.0552 **(C)** '0.0225 **(D)** '0.0522

QUESTION NO.7: If the following rates are prevailing: Euro / $: 1.1916 / 1.1925 and $ / £ : 1.42 / 1.47 what will be the corss rate between Euro / Pound?

(A) 1.6921 / 1.750 **(B)** 1.7530 / 1.6921 **(C)** 1.6921 / 1.1925 **(D)** 1.7530 / 1.1916

QUESTION NO.8: State if each of the following sentences is T (= true) or F (= false) :

(i) Basic lease period refers to the period during which the lease is irrevocable.
(ii) LIBOR for treasury bill rate is the example of basis swaps.
(iii) Provision for taxation is an external source of financing.
(iv) TRIPS are the international agreement on intellectual property rights.
(v) The ROE of an unlevered firm is higher than the ROE of a levered firm, when the ROI is lower than the cost of debt.
(vi) If IRR is less than the firm's cost of capital, the project should be rejected.
(vii) There is no need for calculating separate cost for retained earnings, when cost of equity capital is calculated on the basis of the market value of equity shares.
(viii) In CAPM, systematic risk is the risk that can not be eliminated by diversification, it being common to all firms.
(ix) Interest rate swap is an exchange of interest payments between two parties.

QUESTION NO.9: Match the descriptions to the 'Four kinds of Float' with reference to management of cash:

Descriptions:

(i) The time when a cheque is being processed by pst office, Messanger service or other means of delivery.
(ii) The time required to sort, record and deposit the cheque after it has been received by the company.
(iii) The time from the deposit of cheque to the crediting of funds in the seller's account.
(iv) The time between the sale and the mailing of the invoice.

Four kinds of Float—Management of cash:

(A) Billing Float
(B) Banking processing Float
(C) Cheque processing Float
(D) Mailing Float

MCQ Set 41

QUESTION NO.1: A company is considering four projects A, B, C and D with the following information:

	Project A	**Project B**	**Project C**	**Project D**
Expected NPV	60,000	80,000	70,000	90,000
Standard deviation	4,000	10,000	12,000	14,000

Which project will fit the requirement of low risk apetite? **(A)** Project A **(B)** Project B **(C)** Project C **(D)** Project D

QUESTION NO.2: From the following quotes of a bank, determine the rate at which Yen can be purchased with Rupees. ; Rs. / £ Sterling 75.31 - 33 ; £ Sterling / Dollar ($) -1.563 - 65 ; Dollar ($) / Yen (¥) - 1.048 / 52 [per 100 Yen] **(A)** ‘ 124.02 **(B)** ‘ 142.02 **(C)** ‘ 412.02 **(D)** ‘ 214.02

QUESTION NO.3: The spot Value of Nifty is 4430. An investor bought a one month Nifty 4410 call option for a premium of ‘ 12. The option is: **(A)** In the money **(B)** At the money **(C)** Out of the money **(D)** Insufficient data

QUESTION NO.4: A certain mutual fund has a return of 17% with standard deviation of 3.5% and the sharpe ratio is 4. The risk free rate is: **(A)** 12.5% **(B)** 4% **(C)** 3% **(D)** 7.5%

QUESTION NO.5: **The following information of a project are given below**:

Expected cash flow (Rs.)	**Probability**
6,000	0.20
16,000	0.80

If certainty equivalent coefficient is 0.7, what will be certain (Risk less) cash flows of the project?
(A) ‘ 12,000 **(B)** ‘ 9,800 **(C)** ‘ 9,000 **(D)** ‘ 15,400

QUESTION NO.6: The spot and 6 months forward rates of US dollar in relation to the rupee (Rs. / $) are ‘ 74.532 / 75.4143 and ‘ 75.1278 / 76.2538 respectively. What will be the annualized forward margin (with respect to Ask price)? **(A)** 2.42% **(B)** 1.60% **(C)** 2.23% **(D)** 2.31%

QUESTION NO.7: B can earn a return of 18% by investing in equity shares on his own. Now he is considering a recently announced equity based Mutual Fund Scheme in which initial expenses are 1% and annual recurring expenses are 2%. How much should be Mutual Fund earn to provide B, a return of 18%?
(A) 18.18% **(B)** 20.18% **(C)** 22.18% **(D)** 21%

QUESTION NO.8: You are given the following information of a stock: Strike Price -‘ 400 ; Current stock price -‘ 370 ; Risk free rate of interest- 5%; Theoretical minimum price of a European 6 months' put option after six months is
(A) ‘ 9.37 **(B)** ‘ 20.12 **(C)** ‘ 30.76 **(D)** ‘ 20.63

QUESTION NO.9: MS Ltd. is planning to invest in USA. The annual rates of inflation are 8% in India and 3% in USA. If spot rate is currently ‘ 75-50/$, what spot rate can the company expect after 3 years?
(A) ‘ 65.49 **(B)** ‘ 79.16 **(C)** ‘ 87.04 **(D)** ‘ 72.00

QUESTION NO.10: If the covariance between the returns on a portfolio BC and returns on the market index is 25 and the variance of returns on the market index is 20, what will be the systematic risk of BC under the variance approach? **(A)** 1.25 **(B)** 1.56 **(C)** 5.45 **(D)** 31.25