AFM MCQ
SUMMARY & COMPILATION

MAY 2024

Covers MCQ summary and compilation of

- BOS App MCQ
- MTP March 2024
- MTP April 2024
- RTP May 2024

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NOTE

Hey there,

Happy to have you here!

Do read this note on how to us this MCQ summary and compilation. It will help you to prepare for 30 marks MCQ in your AFM exam.

We have shared the summary of MCQs in first 5 pages so, that you can quickly revise them before exams and it has been observed that generally ICAI repeats few MCQs from its own publications like RTPs , MTPs and now they have released some MCQs on BOS app.

This book is packed with AFM multiple-choice questions (MCQs) and case scenarios from the ICAI BOS portal, RTP May 24 and MTP Series I & II. The MCQs are sorted by difficulty: Simple (S), Medium (M), and Difficult (D), just like on the BOS portal.

Have created a small index for this compilation below

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Note: Focus more on case scenario based MCQs as in latest MTP, ICAI has asked only case scenario based MCQs and no individual MCQs

All the best!

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AFM Individual MCQ Summary

Source	Qn	Ans	Summary
BOS	1	D	Strategic financial management combines the **backward-looking, report-focused discipline** of (financial) accounting with the more dynamic, **forward-looking subject** of financial management.
BOS	2	B	**Capital investment** is the springboard for wealth creation
BOS	3	A	The primary objective of investors in a world of economic uncertainty is to select investment and financial opportunities that will give them **maximum expected returns at minimum risks**.
BOS	4	C	**Contagion Risk** is associated with diffusion of economic crisis throughout a market, asset class or geographic region.
BOS	5	C	**Credit Risk**: when a counter party **fails to honour** their **obligations**
BOS	6	B	**Compliance Risk**: faced by a company when it ventures into a new industry or geographical area with completely different **laws and regulations**
BOS	7	C	**Contagion Risk** is associated with **diffusion** of economic crisis **throughout a market,** asset class or geographic region
BOS	8	C	One-year **VaR** [Value at risk] of a portfolio is Rs. 10 crores with a confidence level of 95%. This means - The worst **expected portfolio loss** over one year will not exceed Rs. 10 crore with 95% **confidence**
BOS	9	A	**Variance** measures **How far** each number in the set is from the mean.
BOS	10	B	**Expected cash flows** are calculated as Sum of **likely cash** flow of project **multiplied by probability** of respective cash flows.
BOS	11	B	**Qualitative factors** is generally **overlooked** by capital budgeting decision makers.
BOS	12	B	When the **risk is high**, the cash flow under certainty equivalent coefficient is **Lower**
BOS	13	D	**Scenario Analysis** is considered under scenarios such as **worst, base & best** Case Scenario
BOS	14	A	**Certainty Equivalent** approach is **Guaranteed return** from an investment **after adjusting** for certainty equivalent coefficient.
BOS	15	B	**Sensitivity analysis** is useful in decision making because It tells the user **how much critical each input** is for the Output value.
BOS	16	A	Expected Net present value = Net present value x Probability %
BOS	17	D	Following factor affects industry analysis (a) Product Lifecycle (b) Government Attitude (c) State of Competition in the Industry
BOS	18	B	As per the **Dow Jones Theory** the Secondary movement of stock prices last from **3 weeks to 3 months.**
BOS	19	B	An **efficient capital market** is one in which Security **prices reflect available information**.
BOS	20	C	**Inflation rate** significantly influences the **demand in consumer** products industries
BOS	21	C	**Mixed Forecasting** is **not** used for **economic analysis**
BOS	22	D	**Drawback** of the Anticipatory Surveys technique (a) Survey results **does not** guarantee that intentions surveyed would materialize. (b) They are **not** regarded as forecasts per se, as there can be a consensus approach by the investor for exercising his opinion.
BOS	23	A	Coupon Rate = Annual interest/ Face Value of bond
BOS	24	C	**Warrant** is **not a money market** instrument
BOS	25	C	Yield = Interest/ Market price

BOS	26	A	* Commercial papers (CP) are redemed at face value and interest is calculated on sale value. * Net amount received on issue of CP = Face value of CP Less: interest on CP sale value **{FV*(rate/100+rate)}** Less: Intermediary charges on net receipt
BOS	27	A	* If face value of bond is not given then use the price of bond and assume the nearest 10, 100 or 1000 as face value. * Coupan rate is calculated on face value fo bond and not price. *First use NPV to check which investment is better
BOS	28	A	Value of zero coupon bond = maturity value x PV factor @ year of maturity
BOS	29	C	Arbitrage Pricing Theory was developed by **Stephan Ross**
BOS	30	A	According to the CAPM, the **intercept** of Security Market Line (**SML**) should be equal to **0**
BOS	31	C	**Common hypothesis** for Traditional and Modern Theories of Portfolio Management = portfolio reduces risk by **diversification**.
BOS	32	D	$\text{Coefficient of variation} = \frac{\text{Stanadrd Deviation}}{\text{Expected Return/ Expected Cash Flow}}$
BOS	33	A	**Risk Premium is Extra return** expected by the Investors as a reward for bearing extra risk.
BOS	34	B	**Securitization** is the process of repackaging or rebundling of **illiquid assets into marketable** securities.
BOS	35	C	The main objective of creating a Special Purpose Vehicle (SPV) in the securitization process is **to remove the asset** from the balance sheet of the **originator**.
BOS	36	D	Open-ended schemes have an indefinite redemption period, while close-ended schemes have a limited life.
BOS	37	D	Embassy Office Parks launched India's first Real Estate Investment Trust
BOS	38	C	The lower the **Tracking Error** of the Index Fund, **higher the accuracy** the more predictable return is.
BOS	39	C	**Spot Market** is a traditional method for an Indian farmer to **sell wheat**
BOS	40	A	In a future contract the **term Basis** is The difference between the **prevailing spot price** and the **futures price**
BOS	41	C	**Selling of Future** Contracts in the share provides protection from a **decrease in prices** of a share
BOS	42	A	When an investor buys back the same amount of futures contracts that he sold earlier is called **closing out the position**
BOS	43	D	In forward contract Both parties negotiate on quality, quantity, place, and price.
BOS	44	C	Forwards are not traded in an exchange at all.
BOS	45	C	Purpose of trading in futures = speculation and hedging.
BOS	46	B	On buying a future contract, the risk is price will fall below the strike price
BOS	47	B	*Forward price = (Spot price - PV of dividend)* $x\ e^{period}$
BOS	48	D	Value of forward contract = PV of (delivery price - forward price)
BOS	49	A	Put option = right to sell at exercise price value of put = higher of {0 or (exercise price - spot price)}
BOS	50	B	Gain on short sell = Sell price - closing price - dividend
BOS	51	D	Delta, Gamma, Theta & Rho are Greek for Options Pricing.
BOS	52	D	*Covered call wirting means buying the share and selling the call *Maximum possible loss for a covered call writer = Initial investment in share – Premium
BOS	53	A	*Forward price = (Spot price - PV of dividend)* $x\ Compounding\ factor$

BOS	54	C	Any **commitment to disinvest** upon the action of another party is called **Short Call**
BOS	55	D	Currency buy is always at higher rate + margin (if any)
BOS	56	D	Future xchange rate = Spot exchange rate + swap point
BOS	57	D	US dollar is quoted today as: spot \$ 1 = INR 80 and six months forward \$1 = INR 83. This means \$ is at premium
BOS	58	D	net outright rate = spot rate + premium
BOS	59	A	$Forward\ margin = \frac{Change\ in\ rate}{spot\ rate}$ (Multiply with period factor to make it annualized)
BOS	60	B	Circus Swap: Combination of two fixed floating currency swaps to fixed to fixed currency swap
BOS	61	C	**International Fisher Effect** (IFE) = disparity between the **exchange rate** of two currencies is approximately equal to the difference between their countries' **nominal interest rates**.
BOS	62	B	Deficit in current account > Depreciation of home currency
BOS	63	C	To hedge against the exchange risk for a contract which is not finalised, its better to use option contract as it settels in net.
BOS	64	B	Risk of remittance is foreign currency can be hedged by buying the put of foreign currency
BOS	65	A	Speculators can have a substantial impact on exchange rate through speculations.
BOS	66	C	(Current future price - sell price) x no. of lot x lot quantity
BOS	67	C	Effect of **foreign exchange risk** on the **parent firm's cash** flow are crucial in **multinational capital budgeting**
BOS	68	D	Evaluation based on parent firms cash flows involves operating and financial cash flows
BOS	69	D	The primary difference between an **interest rate swap** contract and a **forward** contract can be on account of **number of exchanges**
BOS	70	B	Plain Vanilla Swap have notional principal for the purpose of exchange of liabilities.
BOS	71	A	At the beginning of the swap, the initial amount of money the counterparties must exchange = 0
BOS	72	C	**Chop-Shop Method** approach attempts to identify **multi-industry** companies that are undervalued and would have **more value if separated** from each other.
BOS	73	C	**Replaceable Value** method involves valuation as per determination of the **cost** of group of assets and liabilities of equivalent company in the open market.
BOS	74	A	Earning value = Net profit/ required rate as per CAPM
BOS	75	B	**Vertical Merger** happens when two companies that have buyer-seller relationship come together
BOS	76	C	The **general reason** for a divestiture, such as a sell-off/**spin-off** may be **Reverse synergy**
BOS	77	A	A merger that combines companies deal with the **same product but in separate markets** is called a market extension merger
BOS	78	D	**Government grants** cannot be considered as a potential source of **startup financing**
BOS	79	D	In corporate restructuring when a company sells shares of the new company in market by making a public offer is **called Equity Carve Outs**
BOS	80	D	Method to be followed by the firm to bootstrap is not a method to approach a pitch presentation
BOS	81	D	**vendor financing** in start-up involves lending funds to customer so that he can purchase products from the company itself.

AFM Case Scenario Based MCQ Summary

Source	Qn	Ans	Summary
RTP	82	A	**Serial Correlation** test: **Price change** in one period **correlated** with price change in some **other period**. Price changes are considered to be **serially independent**
RTP	83	C	**Run test:** Analyzing the sequence of daily price changes, you count the number of runs where price changes are consistently positive or negative.
RTP	84	B	**Filter Rules test**: If the **price** of stock **increases** by at least N% **buy** and hold it until its price **decreases** by at least N% from a subsequent high.
RTP	85	D	The **Filter Rule** Test should **not be applied** for buy and hold strategy if the behavior of stock **price changes is random**.
RTP	86	C	**Random Walk Theory**: past price trends do not reliably predict future price movements
BOS	87	A	Stock Value of bond/ conversion value = No. of share per bond x market price of share
BOS	88	B	$\% \text{ of downside risk } = \dfrac{\text{Market Price} - \text{Straight Value}}{\text{Market Price}}$
BOS	89	A	$\text{Conversion Premium} = \dfrac{\text{Market Price} - \text{Conversion Value}}{\text{Conversion Value}}$
BOS	90	C	$\text{Conversion Parity Price} = \dfrac{\text{Market Price of bond}}{\text{Number of share per bond}}$
BOS	91	B	$\text{Standard deviation} = \sqrt{\text{Variance}}$
BOS	92	D	Portfolio return = sum of weight*stock return
BOS	93	B	Based on Standard Deviation (sd), the optimum investment will be decided as per return per standard deviation (sd) = returm/ sd
RTP	94	B	On;y Pay Through Security (PTS) permits the SPV to reinvest surplus funds for short term as per their requirement
RTP	95	B	**Originator** = entity which **sells assets** collectively to Special Purpose Vehicle
RTP	96	C	**SPV** = Entity which **receive and hold** the asset from originator
RTP	97	D	RPA = collects the payment due from obligor(s) and passes it to SPV.
RTP	98	B	Inverse relationship between Yeild to maturity (YTM) and Principle only securities
BOS	99	A	Value of option contract on expiry = expiry price of stock - exercise price Gain/ loss on options = Value of option on expiry - Premium paid
BOS	100	A	
BOS	101	D	Real options are not traded in the market and are priced
BOS	102	B	$\text{Swap ratio} = \dfrac{EPS/BV/MP \text{ of Acquiree}}{EPS/BV/MP \text{ of Acquiror}}$
BOS	103	A	Share to be issue to Acquiree = Swap ratiio x existing number of share of acquiree
BOS	104	C	EPS of mew form after merger = (Earning of acquiror + Earning of acquiree)/ (share of acquiror + new shares issued to acquiree)
BOS	105	B	Use EPS as swap ratio to ensure **EPS is not diminished** by the merger for any entity.
MTPS1	106	C	$\text{Total NAV} = \dfrac{\text{Investment}}{\text{NAV on date of investment}} \times \text{Current NAV}$
MTPS1	107	A	Total yield = change in NAV + dividend
MTPS1	108	C	Holding days = (Total yield/ Annual yield) x 365 Days
MTPS1	109	A	Holding days = (Total yield/ Annual yield) x 365 Days
MTPS1	110	D	Refer MCQ 7
MTPS1	111	B	Refer MCQ 8

MTPS1	112	C	Refer MCQ 9
MTPS1	113	B	Use face value as redemption value for calculating the yield
MTPS1	114	B	Main factor for **fixed income avenue security** = **Risk of Default**
MTPS1	115	A	Main factor for **fixed income security** over a period of time by **holding** the security till its **maturity** = Yield to maturity
MTPS1	116	B	If **markest's efficiency is weak** then price is not reflecting all the information and technical analysis is not correct so, **fundamental analysis is best way** for selection of stocks
MTPS1	117	B	Shares to be issued to acquiree = swap ratio x exiting share of acquiree
MTPS1	118	C	EPS of mew form after merger = (Earning of acquiror + Earning of acquiree)/ (share of acquiror + new shares issued to acquiree)
MTPS1	119	C	equivalent earnings per share of acquiree = EPS of merged firm x swap ratio for acquiree
MTPS1	120	C	Price = EPS x PE
MTPS2	121	A	WACC = debt asset ratio x (Cost of debt after tax) + (1 - debt asset ratio) x (Cost of equity)
MTPS2	122	B	EVA = NOPAT – (Invested Capital * WACC) NOPAT = (EBIT - Tax%)
MTPS2	123	C	Price = EPS x PE
MTPS2	124	C	Market Cap = PAT x PE
MTPS2	125	B	EPS = (EBIT - Interest - Tax)/ Number of share
MTPS2	126	D	Charges for delivery before due date of forward = Fixed Charges + Swap Difference + Interest on Outlay of Fund
MTPS2	127	C	**Interest on Outlay** of Fund will be charged at **Prevailing Prime Lending Rate**
MTPS2	128	B	Swap difference = Sell rate for today - (Buy rate for today + + premium)
MTPS2	129	B	Interest on Outlay of Fund = Amount x (Sell rate for customer - buy rate for interbank) x Interest rate x period
MTPS2	130	C	Net inflow = (Amount x sell rate) - swap difference - interest
MTPS2	131	B	Before applying **Multilateral Netting** it is necessary to apply **Bilateral Netting**
MTPS2	132	D	Transfer after netting = Total payment = Total Receipt
MTPS2	133	B	Net Payment/ Net Receipts = Total from paying view - Total from receiving view
MTPS2	134	B	Net Payment/ Net Receipts = Total from paying view - Total from receiving view
MTPS2	135	A	Saving through netting = Transfer Charges x (Total transfers before netting - Net transfer after netting)

AFM Individual MCQ Compilation

Answers of MCQs are available on page 3

Source	Chapter	Qn	Difficulty	MCQ
BOS	Financial Policy and Corporate Strategy	1	S	The strategic financial management is __________ (a) backward looking (b) report-focused discipline (c) forward-looking subject of financial management (d) All of the above
BOS	Financial Policy and Corporate Strategy	2	M	.... is the springboard for wealth creation. (a) Investment in highly risky securities. (b) Capital investment (c) Foreign Exchange Risk Management (d) None of the above
BOS	Financial Policy and Corporate Strategy	3	D	The primary objective of investors in a world of economic uncertainty is.................. (a) to select investment and financial opportunities that will give them maximum expected returns at minimum risks. (b) to select investment and financial opportunities that will give them maximum expected returns at maximum risks. (c) to select investment and financial opportunities that will give them minimum expected returns at maximum risks. (d) None of the above
BOS	Security Valuation	4	S	...........................is associated with diffusion of economic crisis throughout a market, asset class or geographic region. (a) Systematic Risk (b) Unsystematic Risk (c) Contagion Risk (d) Credit Risk
BOS	Security Valuation	5	M	Which type of risk occurs when a counter party fails to honour their obligations? (a) Interest Rate Risk (b) Currency Risk (c) Credit Risk (d) Political Risk
BOS	Security Valuation	6	M	Which type of risk is primarily faced by a company when it ventures into a new industry or geographical area with completely different laws and regulations? (a) Operational Risk (b) Compliance Risk (c) Currency Risk (d) Financial Risk
BOS	Security Valuation	7	D	...........................is associated with diffusion of economic crisis throughout a market, asset class or geographic region. (a) Systematic Risk (b) Unsystematic Risk (c) Contagion Risk (d) Credit Risk
BOS	Security Valuation	8	D	One year VaR [Value at risk] of a portfolio is Rs. 10 crores with a confidence level of 95%. This means........... (a) There is a 5% probability that the loss will be Rs. 10 crores at the end of the year (b) The loss will not exceed Rs. 9.5 crores during valuation anytime

				during the year (c) The worst expected portfolio loss over one year will not exceed Rs. 10 crore with 95% confidence (d) The investor can presume that there is a 95% chance of loss over one trading year will exceed Rs. 10 crore
BOS	Risk Management	9	S	Variance measures.... (a) How far each number in the set is from the mean. (b) The mean of a given data set. (c) Return on Investment (d) Level of risk borne for every percent of expected return.
BOS	Risk Management	10	S	Expected cash flows are calculated as: (a) Sum of likely cash flow of the project. (b) Sum of likely cash flow of project multiplied by probability of respective cash flows. (c) Sum of likely cash flow of project divided by probability of cash flow. (d) none of these
BOS	Risk Management	11	S	Which of the following critical factor is generally overlooked by capital budgeting decision makers. (a) Quantitative factors (b) Qualitative factors (c) Time factor (d) Discounting factor
BOS	Risk Management	12	M	When the risk is high, the cash flow under certainty equivalent coefficient is: (a) Higher (b) Lower (c) No impact (d) None of the above
BOS	Risk Management	13	M	Scenario Analysis is considered under scenarios such as: (a) Worst Case Scenario (b) Base Case Scenario (c) Best Case Scenario (d) All of the above
BOS	Risk Management	14	M	Certainty Equivalent approach is: (a) Guaranteed return from an investment after adjusting for certainty equivalent coefficient. (b) Return that is expected over the lifetime of a project. (c) Equivalent to Net Present Value. (d) An important component in Decision Tree Analysis
BOS	Risk Management	15	D	Sensitivity analysis is useful in decision making because: (a) It shows the probabilities associated with each outcome. (b) It tells the user how much critical each input is for the Output value. (c) It allows to calculate the probable results under different scenarios. (d) The results of Sensitivity Analysis are reliable.
BOS	Risk Management	16	D	The firm expects an NPV of Rs. 10,000 if the economy is exceptionally strong (30% probability), an NPV of Rs. 4,000 if the economy is normal (40% probability), and an NPV of Rs. 2,000 if the economy is exceptionally weak (30% probability). Expected Net present value is __________. (a) Rs. 5,200 (b) Rs. 6,000 (c) Rs. 5,000 (d) Rs. 6,200

BOS	Advanced Capital Budgeting Decisions	17	S	Which of the following factor affects industry analysis? (a) Product Lifecycle (b) Government Attitude (c) State of Competition in the Industry (d) All of these
BOS	Advanced Capital Budgeting Decisions	18	S	As per the Dow Jones Theory the Secondary movement of stock prices last from................ (a) one year to three years. (b) three weeks to three months. (c) day to day. (d) None of these
BOS	Advanced Capital Budgeting Decisions	19	S	An efficient capital market is one in which............. (a) Taxes are irrelevant. (b) Security prices reflect available information. (c) Securities always offer a positive rate of return to investors. (d) Security prices are guaranteed (by the SEBI) to be fair
BOS	Advanced Capital Budgeting Decisions	20	M	Which factor significantly influences the demand in consumer products industries? (a) Interest rate (b) Discount rate (c) Inflation rate (d) None of the above
BOS	Advanced Capital Budgeting Decisions	21	M	Which of the following technique is not used for economic analysis? (a) Barometer/Indicator Approach (b) Economic Model Building Approach (c) Mixed Forecasting (d) Economic Model Building Approach
BOS	Advanced Capital Budgeting Decisions	22	D	Which of the following is a drawback of the Anticipatory Surveys technique used in economic analysis? (a) Survey results guarantee that intentions surveyed would materialize. (b) They are regarded as forecasts per se, as there can be a consensus approach by the investor for exercising his opinion. (c) Both of (a) and (b) (d) None of the above
BOS	Security Analysis	23	S	The annual interest of a bond divided by its face value is called the bond's.......................... (a) Coupon Rate (b) Face value (c) Maturity (d) Yield to maturity
BOS	Security Analysis	24	S	Which of the following is not a money market instrument? (a) Commercial paper (b) Participatory certificates (c) Warrant (d) Treasury Bills
BOS	Security Analysis	25	S	A debenture of Rs. 10000 carrying 15% coupon rate is quoted in the market at Rs.13500. The current yield on this debenture will be: (a) 13.50% (b) 15% (c) 11.11% (d) 10%

BOS	Security Analysis	26	D	A Ltd. issued commercial paper worth ₹ 10 crores as per the following details: Date of issue: 15th June, 2022 Maturity period: 73 days No. of days in a year: 365 days Interest rate: 15% p.a. Intermediary charges: 0.1% of Net Receipts The net amount received by the company on such issue of CP shall be approximately........... (a) ₹ 9,69,90,291 (b) ₹ 9,70,87,379 (c) ₹ 9,69,77,379 (d) ₹ 9,69,00,000
BOS	Security Analysis	27	D	The following information is related to two bonds same in other respects: Price of Bond A = Rs. 10 Price of Bond B = Rs. 120 Coupon Rate of Bond A =14% Coupon Rate of Bond B = 15% If both the bonds are redeemable at a Premium of 10% after 2 years and the required yield on this category of Bonds is 16% then best avenue for investment shall be.............. (a) Bond A (b) Bond B (c) Any of the two Bonds (d) Neither of the two Bonds
BOS	Security Analysis	28	D	The value a zero coupon with a maturity of three years and a maturity value of Rs 1,000 discounted at 7% is (a) Rs. 816.30 (b) Rs. 901.94 (c) Rs. 966.18 (d) Rs. 1000
BOS	Portfolio Management	29	S	Arbitrage Pricing Theory was developed by............................... (a) William Sharpe (b) Harry Markowitz (c) Stephan Ross (d) Black Scholes
BOS	Portfolio Management	30	M	According to the CAPM, the intercept of Security Market Line (SML) should be equal to......... (a) zero. (b) the expected risk premium on the market portfolio. (c) the risk-free rate. (d) the expected return on the market portfolio.
BOS	Portfolio Management	31	M	What is the common hypothesis for Traditional and Modern Theories of Portfolio Management. (a) Both approaches use statistical methods. (b) Both approaches are based on judgement. (c) Both approaches are based on hypothesis that a portfolio reduces risk by diversification. (d) None of these

BOS	Portfolio Management	32	M	Calculation of Coefficient of Variance depends on: (a) Standard Deviation (b) Expected Return (c) Expected cash flow (d) All of the above
BOS	Portfolio Management	33	M	Risk Premium is: (a) Extra rate of return expected by the Investors as a reward for bearing extra risk. (b) Equivalent to the rate of Government Securities. (c) Return provided to equity shareholders. (d) Risk free rate of return.
BOS	Securitization	34	S	……….is the process of repackaging or rebundling of illiquid assets into marketable securities. (a) Diversification (b) Securitization (c) Structured finance (d) Tokenization
BOS	Securitization	35	M	The main objective of creating a Special Purpose Vehicle (SPV) in the securitization process is…………………………… (a) to acquire legal and beneficial interest in the assets. (b) to issue securities to the investors. (c) to remove the asset from the balance sheet of the originator. (d) to write off the asset as bad debt from the balance sheet of the originator.
BOS	Mutual Funds	36	M	The major difference between open-ended and close-ended mutual fund schemes is that…………. (a) in Open Ended Schemes, investors can only make entry and exit during pre-specified intervals. (b) Close-ended schemes allow investors to redeem their investments at any time. (c) Open-ended schemes have a limited life, while close-ended schemes have an indefinite redemption period. (d) Open-ended schemes have an indefinite redemption period, while close-ended schemes have a limited life.
BOS	Mutual Funds	37	M	Which of the following Business Parks has launched India's first Real Estate Investment Trust (ReIT)? (a) Galaxy Business Parks (b) DLF Cyber City (c) Patni Knowledge Parks (d) Embassy Office Parks
BOS	Mutual Funds	38	M	The lower the………. of the Index Fund, higher the accuracy the more predictable return is. (a) Alpha (b) Beta (c) Tracking Error (d) Exist Load
BOS	Derivatives Analysis and Valuation	39	S	Which of the following is a traditional method for an Indian farmer to sell wheat? (a) Forward Contract (b) Future Contract (c) Spot Market (d) Capital Market

BOS	Derivatives Analysis and Valuation	40	S	In a future contract the term Basis is.................. (a) The difference between the prevailing spot price and the futures price. (b) The difference between the current market price and the strike price. (c) The difference between the long position and the short position. (d) The difference between the initial margin and the maintenance margin
BOS	Derivatives Analysis and Valuation	41	S	Which of the following position provides protection from a decrease in prices of a share? (a) Buying of Future Contracts in the share. (b) Buying Call Option in the share. (c) Selling of Future Contracts in the share. (d) Selling Put Option in the share.
BOS	Derivatives Analysis and Valuation	42	S	When an investor buys back the same amount of futures contracts that he sold earlier is called.................... (a) closing out the position. (b) going long of the futures. (c) opening a new position. (d) None of these
BOS	Derivatives Analysis and Valuation	43	M	Which of the following is true regarding a forward contract? (a) It is standardized. (b) The contracting parties negotiate only on the price. (c) The contracting parties negotiate only on quantity and quality. (d) Both parties negotiate on quality, quantity, place, and price.
BOS	Derivatives Analysis and Valuation	44	M	Which among the following derivative product is not traded in an exchange at all? (a) Futures (b) Options (c) Forwards (d) None of these
BOS	Derivatives Analysis and Valuation	45	M	What is the purpose of trading in futures? (a) Only for speculation. (b) Only for hedging. (c) Both for speculation and hedging. (d) Only for arbitraging.
BOS	Derivatives Analysis and Valuation	46	D	ABC Masala Co. purchase jeera to make its products. The company is concerned that prices may rise prior to building inventory for festivals sales. Analysts project that price per quintal could vary from Rs. 52,000 to Rs. 70,000. A September futures contract can be obtained with a Rs. 65,000 purchase prices. What is ABC's risk in this situation? (a) Coca prices will rise above Rs. 65,000 and Tingley will purchase its coca at a price of Rs. 65,000. (b) Coca prices will decline below Rs. 65,000 and Tingley will have to purchase coca at Rs. 65,000. (c) Coca prices will hit Rs. 65,000 and the contract was a waste of time. (d) ABC Co. has no risk in this situation.

BOS	Derivatives Analysis and Valuation	47	D	The spot price of an investment is Rs. 3,000 and the risk-free rate for all maturities (with continuous compounding) is 10% p.a.. Suppose the asset provides an income of Rs. 200 at the end of the first year and at the end of the second year, then three-year forward price shall be ……………… (e0.10 = 1.1052, e0.20 = 1.2214 and e0.30= 1.3499) (a) Rs. 1,967 (b) Rs. 3,584 (c) Rs. 4,515 (d) Rs. 4,050
BOS	Derivatives Analysis and Valuation	48	D	A short forward contract on share of A Ltd. that was negotiated some time ago will expire in 3 months and has a delivery price of Rs. 4,000. The current forward price for three-month forward contract is Rs. 4,200 and the 3-month risk-free interest rate (with monthly compounding) is 6%. The value of the same short forward contract will be……….. (a) Rs. 200 (b) - Rs. 200 (c) Rs. 197.03 (d) - Rs. 197.03
BOS	Derivatives Analysis and Valuation	49	D	A put option on a company's stock has an exercise price of Rs. 200. On the delivery date, the stock is trading at Rs. 240 per share. What should the investor who has paid Rs. 20 for the option do? (a) Not exercise the option and lose Rs. 20. (b) Not exercise the option and lose Rs. 60. (c) Exercise the option and gain Rs. 20. (d) Exercise the option and gain Rs. 40.
BOS	Derivatives Analysis and Valuation	50	D	Mr. A a speculator shorts 1000 shares of X Ltd. when the share price was Rs. 50 and closes out the position after 3 months when the share price was Rs. 43. The company pays a dividend of Rs. 3 per share during the 3 months. The gain of Mr. A will be …. (a) Rs. 1,000 (b) Rs. 4,000 (c) Rs. 7,000 (d) Rs. 3,000
BOS	Derivatives Analysis and Valuation	51	D	Which amongst the following is not a Greek for Options Pricing (a) Delta (b) Gamma (c) Theta (d) Kho
BOS	Derivatives Analysis and Valuation	52	D	The maximum possible loss for a covered call writer is………………. (a) Option premium. (b) Current price of the underlying asset. (c) Strike price. (d) Initial investment Net of Premium

BOS	Derivatives Analysis and Valuation	53	D	The spot price of an investment asset that provides no income is Rs. 3000 and the risk-free rate for all maturities (with yearly compounding) is 10%. The three- year forward price of same investment shall be……….. (a) Rs. 3,993 (b) Rs. 4,050 (c) Rs. 4,020 (d) Rs. 4,034
BOS	Derivatives Analysis and Valuation	54	D	As per Real Option in Capital Budgeting any commitment to disinvest upon the action of another party is called __________. (a) Long Call (b) Long Put (c) Short Call (d) Short Put
BOS	Foreign Exchange Exposure & Risk Mgt	55	S	Suppose Hari approaches a forex dealer who loads INR 1.00 margin on the interbank rate for travel related remittances. If in the interbank market the USD is quoted at INR 85.46 - 85.50 then Mr. Hari (a) can buy travel card at INR 84.46. (b) can buy travel card at INR 84.50. (c) can buy travel card at INR 86.46. (d) can buy travel card at INR 86.50.
BOS	Foreign Exchange Exposure & Risk Mgt	56	S	On October 10, 2022, the Spot exchange rate is INR / USD = INR 66.2525- INR 67.5945 and the two months swap points are 125 and 195. What would be the foreign exchange rate after 2 months? (a) INR / USD = INR 66.2620 – INR 67.6070 (b) INR / USD = INR 66.2400 – INR 67.5750 (c) INR / USD = INR 66.2330 – INR 67.5820 (d) INR / USD = INR 66.2650 – INR 67.6140
BOS	Foreign Exchange Exposure & Risk Mgt	57	S	US dollar is quoted today as: spot $ 1 = INR 80 and six months forward $1 = INR 83. (a) This means $ is at discount (b) This means future of rupee is uncertain (c) This means future of rupee is unclear (d) This means $ is at premium
BOS	Foreign Exchange Exposure & Risk Mgt	58	M	If USD/INR spot is trading at 83.2000 and one year Swap annualized premium is trading at 6.8% then what would be the net outright rate (a) 77.4500 (b) 77.5524 (c) 88.4500 (d) 88.8576
BOS	Foreign Exchange Exposure & Risk Mgt	59	M	US dollar is quoted today as: spot $ 1 = Rs. 80 and six months forward $1 = Rs. 84. The annualized forward margin is…… (a) 10% (b) 5% (c) 3% (d) 6%

BOS	Foreign Exchange Exposure & Risk Mgt	60	M	Combination of two fixed floating currency swaps to fixed to fixed currency swap is called? (a) Vanilla Swap (b) Circus Swap (c) Extendible Swap (d) Roller-Coaster Swaps
BOS	Foreign Exchange Exposure & Risk Mgt	61	M	..................Theory substantiates that the expected disparity between the exchange rate of two currencies is approximately equal to the difference between their countries' nominal interest rates. (a) Interest Rate Parity (b) Purchasing Power Parity (c) International Fisher Effect (IFE) (d) None of these
BOS	Foreign Exchange Exposure & Risk Mgt	62	M	How does a deficit in current account affect the exchange rate of a country? (a) Appreciation of home currency (b) Depreciation of home currency (c) No impact on the exchange rate (d) It depends on the size of the deficit
BOS	Foreign Exchange Exposure & Risk Mgt	63	D	T & L Ltd has submitted its bid along with bid bond guarantee of its bank for Green-house gas construction project in Australia with expected cash flows spread over next 3 years. Though its pricing is very competitive, it is not sure of securing it due to other factors. But if secured, it has a huge exchange risk in the invoicing currency viz.: AUD. It can opt for the following derivative product to protect itself. (a) Forward contract (b) Futures contract (c) Option contract (d) Swaps
BOS	Foreign Exchange Exposure & Risk Mgt	64	D	An Indian exporter expecting a remittance of USD 5 Million, planning to hedge his position by option contracts should.......... (a) buy Call Option in USD. (b) buy Put Option in USD. (c) buy Call Option in INR. (d) buy Put Option in INR.
BOS	Foreign Exchange Exposure & Risk Mgt	65	D	How can expectations affect the exchange rate of a currency? (a) Speculators can have a substantial impact on exchange rate through speculations. (b) The current spot/forward rates are often used to develop forecasts. (c) A combination of forecasting techniques is used to develop forecasts. (d) Historical data is used to predict future values.
BOS	Foreign Exchange Exposure & Risk Mgt	66	D	A Trader sold 20 lots of USD/INR in an exchange (1 lot = $ 1000) via currency futures. He dealt at a future price of INR 78/$ for 3 months. Currently future price is trading at INR 82/$. The M2M (Mark to Market) of trader in the exchange shall be.................... (a) INR 4000 (b) INR 8000 (c) INR 80000 (d) INR 40000

BOS	International Financial Management	67	M	Which of the following factors are crucial in multinational capital budgeting? (a) Cash flows from domestic projects. (b) Profits remitted to the host country. (c) Effect of foreign exchange risk on the parent firm's cash flow. (d) Changes in rates of inflation in the parent country.
BOS	International Financial Management	68	D	What is the difference between evaluating a project-based cash flows and parent firms cash flows? (a) Evaluation based on parent firms cash flows requires competition with existing local firms. (b) Evaluation based on parent firms cash flows involves financial cash flows only. (c) Evaluation based on parent firms cash flows eliminates problems associated with fluctuating exchange rate changes. (d) Evaluation based on parent firms cash flows involves operating and financial cash flows.
BOS	Interest Rate Risk Management	69	M	The primary difference between an interest rate swap contract and a forward contract can be on account of....................... (a) underlying (b) time of payment (c) daily marking to the market (d) number of exchanges
BOS	Interest Rate Risk Management	70	D	Which of the following contract involves the notional principal for the purpose of exchange of liabilities. (a) Currency Swap (b) Plain Vanilla Swap (c) Forward Contract (d) None of these
BOS	Interest Rate Risk Management	71	D	Suppose A Ltd. is entering into an interest rate swap with a notional principal of Rs. 10,00,00,000. At the beginning of the swap the initial amount of money the counterparties must exchange........... (a) Rs. 0 (b) Rs. 5,000,000 (c) The future value of Rs.10,00,00,000 (d) Rs. 10,00,00,000 discounted
BOS	Business Valuation	72	S	............................approach attempts to identify multi-industry companies that are undervalued and would have more value if separated from each other. (a) Economic Value Added Method (b) Market Value Added Method (c) Chop-Shop Method (d) None of the above
BOS	Business Valuation	73	M	.....................method involves valuation as per determination of the cost of group of assets and liabilities of equivalent company in the open market. (a) Net Asset Value (b) Net Realizable Value (c) Replaceable Value (d) None of the above

BOS	Business Valuation	74	D	X Ltd. made a net profit of Rs. 50,00,000 and incurred expenses of Rs. 15,00,000. The number of issued Equity shares is 10,00,000. The company has a debt of Rs. 5,00,000. The market related details are as follows: Rf = 10% Market Rate of Return = 15% β = 1.2 The per share Earning Value of the company shall be................................ (a) Rs. 31.25 (b) Rs. 21.88 (c) Rs. 312.50 (d) Rs. 218.75
BOS	Mergers,Acquisitions & Corporate Restructuring	75	S	Which type of merger happens when two companies that have buyer-seller relationship (or potential buyer-seller relationship) come together? (a) Horizontal Merger (b) Vertical Merger (c) Conglomerate Merger (d) Congeneric Merger
BOS	Mergers,Acquisitions & Corporate Restructuring	76	M	The general reason for a divestiture, such as a sell-off or spin-off may be......................... (a) Synergy (b) Economics of scale (c) Reverse synergy (d) None of these
BOS	Mergers,Acquisitions & Corporate Restructuring	77	D	A merger that combines companies deal with the same product but in separate markets is called a............ (a) market extension merger. (b) pure conglomerate merger. (c) vertical merger. (d) reverse merger
BOS	Startup Finance	78	M	Which of the following can not be considered as a potential source of startup financing? (a) Bank loans (b) Personal financing (c) Crowdfunding (d) Government grants
BOS	Startup Finance	79	M	In corporate restructuring when a company sells shares of the new company in market by making a public offer is called__________. (a) Sell off (b) Spin Off (c) Split up (d) Equity Carve Outs
BOS	Startup Finance	80	D	Which among the following is not a method to approach a pitch presentation? (a) Introduction of the team (b) The market size of the product (c) Explaining the approach to be followed to solve a problem (d) Method to be followed by the firm to bootstrap
BOS	Startup Finance	81	D	The vendor financing in startup involves................. (a) borrowing funds from customer to lend funds to the company. (b) borrowing funds from customer to purchase products from the company. (c) lending funds to customer so that he can purchase products from different vendor. (d) lending funds to customer so that he can purchase products from the company itself.

AFM Case Scenario Based MCQ Compilation

Answers of MCQs are available on page 6

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

Test 1

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

Test 2

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

Test 3

To examine the efficacy of trading strategies based on historical price trends, you implemented a simple trading rule for the XYZ Stock Index. The rule involves buying when the price crosses a moving average of 5% threshold and selling when it crosses another 7% threshold. Over a period of testing, you computed the returns generated by the trading strategy. The results revealed that the returns are not consistently better than random chance, implying that past price trends do not reliably predict future price movements.

Conclusion:

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

Source	Chapter	Qn	MCQ
RTP	Advanced Capital Budgeting Decisions	82	Test 1 is ……………….. (a) Serial Correlation test (b) Filter Rules test (c) Run test (d) Variance Ratio test
RTP	Advanced Capital Budgeting Decisions	83	Test 2 is ………………… (a) Serial Correlation test (b) Filter Rules test (c) Run test (d) Variance Ratio test
RTP	Advanced Capital Budgeting Decisions	84	Test 3 is …………….. (a) Serial Correlation test (b) Filter Rules test (c) Run test (d) Variance Ratio test

RTP	Advanced Capital Budgeting Decisions	85	The Filter Rule Test should not be applied for buy and hold strategy if……………. (a) the behavior of stock price changes is predictable. (b) the behavior of stock price changes is dependent on past trends. (c) the behavior of stock price changes is correlated. (d) the behavior of stock price changes is random.
RTP	Advanced Capital Budgeting Decisions	86	Results of your studies support the………….. (a) Semi-strong EMH Theory (b) Strong EMH Theory (c) Random Walk Theory (d) Markowitz Theory

The data given below relates to a convertible bond of X Ltd.:

Face value	Rs. 450
Coupon rate	15%
No. of shares per bond	25
Market price of share	Rs. 20
Straight value of bond	Rs. 400
Market price of convertible bond	Rs. 550

Source	Chapter	Qn	MCQ
BOS	Security Analysis	87	The stock value of bond would be ………… (a) Rs. 500 (b) Rs. 400 (c) Rs. 550 (d) Rs. 450
BOS	Security Analysis	88	The percentage of downside risk based on market price of convertible bond is ………… (a) 10% (b) 27.27% (c) 18.18% (d) 11.11%
BOS	Security Analysis	89	The conversion premium is …………. (a) 10% (b) 27.27% (c) 18.18% (d) 11.11%
BOS	Security Analysis	90	The conversion parity price of the stock is …………. (a) Rs. 25 (b) Rs. 20 (c) Rs. 22 (d) Rs. 24

Mr. A is interested in investing Rs. 1,00,000 for which he is considering following three alternatives:

(i) Invest Rs. 1,00,000 in Mutual Fund X (MFX)

(ii) Invest Rs. 1,00,000 in Mutual Fund Y (MFY)

(iii) Portfolio - Invest Rs. 60,000 in Mutual Fund X (MFX) and Rs. 40,000 in Mutual Fund Y (MFY)

Average annual return earned by MFX and MFY is 12% and 11% respectively. Risk free rate of return is

8% and market rate of return is 10%.

Covariance of returns of MFX, MFY and market portfolio Mix are as follow:

Particulars	MFX	MFY	Portfolio
MFX	4.400	4.300	3.370
MFY	4.300	4.200	2.800
Portfolio	3.370	2.800	4.200

Source	Chapter	Qn	MCQ
BOS	Portfolio Management	91	Standard Deviation of MFX is .... (a) 2.0736 (b) 2.0976 (c) 1.8358 (d) 2.0494
BOS	Portfolio Management	92	Portfolio return would be .... (a) 11.00% (b) 12.00% (c) 11.50% (d) 11.60%
BOS	Portfolio Management	93	Based on Standard Deviation, the optimum investment for Mr. A would be .... (a) Portfolio (b) All investment in MFX (c) All investment in MFY (d) Both MFY and mix are indifferent

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

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

Source	Chapter	Qn	MCQ
RTP	Securitization	94	The securitized instrument issued for ₹ 100 million by the GIT falls under category of .... (a) Pass Through certificate (PTCs) (b) Pay Through Security (PTS) (c) Stripped Security (d) Debt Fund.
RTP	Securitization	95	In the above scenario, the Originator is..................... (a) Grow More Ltd. (b) MAC Financial Corporation (MFC) (c) General Investment Trust (GIT) (d) Safeguard Pvt. Ltd. III.
RTP	Securitization	96	In the above scenario, the General Investment Trust (GIT) is a/an..................... (a) Obligor (b) Originator (c) Special Purpose Vehicle (SPV) (d) Receiving and Paying Agent (RPA)

RTP	Securitization	97	In the above scenario, the Safeguard Pvt. Ltd. (SPL) is a/an……………… (a) Obligor (b) Originator (c) Special Purpose Vehicle (SPV) (d) Receiving and Paying Agent (RPA)
RTP	Securitization	98	Which of the following statement holds true? (a) When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to rise. (b) When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to fall. (c) When Yield to Maturity in market falls, prices of Principle Only (PO) Securities tend to fall. (d) When Yield to Maturity in market falls, prices of Principle Only (PO) Securities remain the same.

X and Y are two friends. Since Y has earned a lot of profit from trading in financial derivative market, X is also considering speculating on Gamma Corporation's shares which is currently trading at ₹ 700 per share through taking positions in options in stocks of same company. Accordingly, X took following contract positions in the options on Gama Corporation's stock:

i) Purchasing one contract of 2-month call option with a premium of ₹ 35 and an exercise price of ₹ 750.
ii) Purchasing one contract of 2-month put option with a premium of ₹ 25 and an exercise price of ₹ 600.

After some time, trading in Option Market and understanding the nitty-gritties of same, X being CEO in an organization advised his team to implement the concept of Financial Options in the Capital Budgeting decisions called 'Real Option'.

Source	Chapter	Qn	MCQ
BOS	Derivatives Analysis and Valuation	99	Assuming that the contract size of each option contract is 100 and the price of Gama Corporation's share after two months falls to ₹ 550, the net pay-off of X will be……… (a) ₹ 1,000 loss (b) ₹ 1,000 profit (c) ₹ 3,000 profit (d) ₹ 3,000 loss
BOS	Derivatives Analysis and Valuation	100	The per share price of Gama Corporation's stock after 2 months at which X shall be at Break Even is….. (a) ₹ 540 (b) ₹ 600 (c) ₹ 625 (d) ₹ 785
BOS	Derivatives Analysis and Valuation	101	Which of the following statement is false regarding Real Options? (a) Real Options methodology is an approach to capital budgeting that relies on Option Pricing theory to evaluate projects. (b) Real options approach is intended to supplement, and not replace, capital budgeting analyses based on standard Discounted Cash Flow (DCF) methodologies. (c) Real options are different from financial options as their periods start from the end of 1st year and are higher than financial options. (d) Real options are normally traded in the market and are priced.

P Ltd. is studying the possible acquisition of Q Ltd. by way of merger. The following data are available:

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

The merger shall be gone through by exchange of equity shares and the exchange ratio is set according to different weights assigned to different basis as mentioned below :-

EPS 50%

Market Price 25%

Book Value 25%

Source	Chapter	Qn	MCQ
BOS	Mergers,Acquisitions & Corporate Restructuring	102	The swap ratio based on assigned weights shall be...................................... (a) 0.825 (b) 0.925 (c) 0.952 (d) 0.752
BOS	Mergers,Acquisitions & Corporate Restructuring	103	Based on swap ratio as per assigned weights the total number of shares issued by P Ltd to Q Ltd. shall be........... (a) 46250 (b) 41250 (c) 47600 (d) 37600
BOS	Mergers,Acquisitions & Corporate Restructuring	104	Post merger the EPS of the P Ltd. shall be................ (a) 5.39 (b) 5.25 (c) 5.28 (d) 5.47
BOS	Mergers,Acquisitions & Corporate Restructuring	105	In case Q Ltd. wants to be sure that its EPS is not diminished by the merger, the relevant exchange ratio to achieve the same objective should (a) 0.83 (b) 1.20 (c) 1.30 (d) 1.10

Mr. Y has invested in the three mutual funds (MF) as per the following details:

Particulars	MF 'X'	MF 'Y'	MF 'Z'
Amount of Investment	4,00,000	8,00,000	4,00,000
Net Assets Value (NAV) at the time of purchase	10.3	10.1	10
Dividend Received up to 31.03.2023	9000	0	6000
NAV as on 31.03.2023	10.35	10	10.3
Effective Yield per annum as on 31.03.2023 (percent)	9.66	-11.66	24.15

Assume 1 Year = 365 days

Source	CS	Qn	MCQ
MTP S1	1	106	Total NAV of MF 'Y' as on 31.03.2023 would be approximately .... (a) 401941.73 (b) 412000.00 (c) 792079.20 (d) 82500.00

MTP S1	1	107	Total Yield of MF 'X' in terms of would be approximately .... (a) 10941.73 (b) 7,920.80 (c) 18,000.00 (d) 12450.45
MTP S1	1	108	Number of days for which MF 'X' is held would be approximately............ (a) 31 Days (b) 68 Days (c) 103 Days (d) 85 Days
MTP S1	1	109	Number of days for which MF 'Y' is held would be............ (a) 31 Days (b) 68 Days (c) 103 Days (d) 85 Days

ABC Ltd. is planning to expand its business and therefore raising fund by issuing a convertible bond of 10 crore. An investor "Mr. X" is interested to invest in the bond of ABC Ltd. Mr. X has following data related to the convertible bond. The data given below relates to a convertible bond

Face value	250
Coupon rate	12%
No. of shares per bond	20
Market price of share	12
Straight value of bond	235
Market price of convertible bond	265
Maturity	5 Years

Source	CS	Qn	MCQ
MTP S1	2	110	The percentage of downside risk of the bond is approximately................ (a) 10.42% (b) 6.38% (c) 2.13% (d) 12.77%
MTP S1	2	111	The conversion premium in percentage term of the bond is................ (a) 12.77% (b) 10.42% (c) 2.18% (d) 13.45%
MTP S1	2	112	The conversion parity price of the stock is............... (a) ` 11.75 (b) ` 12.00 (c) ` 13.25 (d) ` 12.50
MTP S1	2	113	If he wants a yield of 15% the maximum price he should be ready to pay for is............... (a) 217.41 (b) 224.81 (c) 240.00 (d) 232.32

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

❖ Client A wants to invest in Fixed income avenues and therefore he is looking at the credit rating of the securities as well as financial ratios such as interest coverage, earning power etc and the general prospect of the industry.

❖ Client B wants to earn a fixed income over a period of time by holding the security till its maturity.

❖ Client C wants to earn more by taking more risk. Therefore, he is more interested to invest in stocks. He believes that Price reflects all information found in the record of past prices and volumes.

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

Source	CS	Qn	MCQ
MTP S1	3	114	The main factor to be considered in selecting fixed income avenue for client A shall be………………. (a) Yield to maturity (b) Risk of Default (c) Tax Shield (d) Liquidity
MTP S1	3	115	The main factor that have to be evaluated in the selection of Bond for Client B shall be………………. (a) Yield to maturity (b) Risk of Default (c) Tax Shield (d) Liquidity
MTP S1	3	116	If Weak form efficiency is prevailing in the market then which approach is best for selection of Equity Shares? (a) Technical Analysis (b) Fundamental Analysis (c) Random selection Analysis (d) None of the above.

AES Ltd. wants to acquire DNF Ltd. and has offered a swap ratio of 1:2 (0.5 shares for every one share of DNF Ltd.). Following information is provided

	AES Ltd.	DNF Ltd.
Profit after tax	36,00,000	7,20,000
Equity shares outstanding (Nos.)	12,00,000	3,60,000
PE Ratio	10 times	7 times
Market price per share	30	14

Source	CS	Qn	MCQ
MTP S1	4	117	The number of equity shares to be issued by AES Ltd. for acquisition of DNF Ltd. would be……………… (a) 1,68,000 (b) 1,80,000 (c) 2,40,000 (d) 3,00,000
MTP S1	4	118	The EPS of AES Ltd. after the acquisition would be……………… (a) ` 2 (b) ` 3 (c) ` 3.13 (d) ` 4.00

MTP S1	4	119	The equivalent earnings per share of DNF Ltd. would be………. (a) ` 1 (b) ` 1.50 (c) ` 1.57 (d) ` 2.00
MTP S1	4	120	If AES Ltd. PE multiple remains unchanged then its expected market price per share after the acquisition would be…………….. (a) ` 14 (b) ` 30 (c) ` 31.30 (d) ` 40.00

During one business meeting at XYZ Ltd., one of the member pointed out that while evaluating the performance of any company one should not only see its Operating Income but should also analyse its Capital structure as well. Weighted Average Cost of Capital changes on the basis of capital structure keeping all other factors unchanged.

He presented data relating to 3 companies Alpha Ltd., Beta Ltd. and Gama Ltd. whose operating Income are equal, but their capital structure is different.

The following information relating to these 3 companies is as follows:

	Alpha Ltd.	Beta Ltd.	Gama Ltd.
Total invested capital	20,00,000	20,00,000	20,00,000
Debt/Assets ratio	0.8	0.5	0.2
Shares outstanding	61,000	83,000	1,00,000
Pre tax Cost of Debt	0.16	0.13	0.15
Cost of Equity	0.26	0.22	0.2
Operating Income (EBIT)	5,00,000	5,00,000	5,00,000

The Tax rate is uniform 35% in all cases. The industry PE ratio is 11X.

Source	CS	Qn	MCQ
MTP S2	1	121	The weighted average cost of capital of Alpha Ltd. shall approximately be ………………. (a) 13.520% (b) 15.225% (c) 17.950% (d) 18.000%
MTP S2	1	122	The Economic Valued Added (EVA) for Beta Ltd. is…………… (a) ` 54600 Thousand (b) ` 20500 Thousand (c) (-) ` 34000 Thousand (d) ` 21500 Thousand
MTP S2	1	123	The price per share of Gama Ltd. shall be ……………. (a) ` 28.60 (b) ` 31.90 (c) ` 31.46 (d) ` 29.45
MTP S2	1	124	The estimated market capitalisation for Alpha Ltd. is…………… (a) ` 26,47,700 Thousand (b) ` 31,46,000 Thousand (c) ` 17,44,600 Thousand (d) ` 23,73,800 Thousand
MTP S2	1	125	Earning per share of Beta Ltd. is……………. (a) ` 2.60 (b) ` 2.90 (c) ` 2.86 (d) ` 2.15

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

Spot 85.22/85.27

One Month Premium 10/15

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

(2) Prevailing Prime Lending Rate is 12%

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

Source	CS	Qn	MCQ
MTP S2	2	126	The bank may accept the request of customer of delivery before due date of forward contract provided the customer is ready to bear the loss if any consisting of………… (a) Swap Difference (b) Interest on Outlay of Fund (c) Swap Difference Plus Interest on Outlay of Fund (d) Fixed Charges Plus Swap Difference and Interest on Outlay of Fund
MTP S2	2	127	In case of early delivery bank shall charge interest on outlay of fund at a rate not less than…………….. (a) 8% (b) 10% (c) 12% (d) 18%
MTP S2	2	128	Swap Difference for US$ 1,00,000 is………………. (a) ` 5,000 (b) ` 20,000 (c) ` 18,000 (d) ` 8,000
MTP S2	2	129	Interest on outlay of funds shall be approximately………………… (a) ` 92 payable by X (b) ` 183 payable by X (c) ` 183 payable by Bank (d) ` 122 payable by Bank
MTP S2	2	130	Net inflow to Mr. X is approximately……………. (a) ` 85,42,183 (b) ` 85,20,000 (c) ` 85,19,817 (d) ` 85,40,000

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

Inter Subsidiary Payments Matrix (US $ Thousands)

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

Source	Chapter	Qn	MCQ
MTP S2	3	131	Before applying Multilateral Netting it is necessary to apply……………… (a) Unilateral Netting (b) Bilateral Netting (c) Multilateral Netting (d) Interest Rate Swapping
MTP S2	3	132	Through Multinational Netting these transfers will be reduced to ……………………… (a) $ 50,000 (b) $ 100,000 (c) $ 150,000 (d) $ 200,000
MTP S2	3	133	The Net Payment/ Net Receipts for France after netting off shall be…………… (a) Net Receipt $ 40,000 (b) Net Payment $ 80,000 (c) Net Payment $ 40,000 (d) Net Receipt $ 80,000
MTP S2	3	134	The Net Payment/ Net Receipts for Italy after netting off shall be…………… (a) Net Receipt $ 60,000 (b) Net Payment $ 120,000 (c) Net Payment $ 60,000 (d) Net Receipt $ 120,000
MTP S2	3	135	Suppose if the transfer charges are 0.01% of the amount transferred then by applying multilateral netting techniques there will be reduction in overall cost of transfer by …………. (a) US $ 136 (b) US $ 156 (c) US $ 1,360 (d) US $ 1,560