Practice Book

Investment Analysis and Portfolio Management Module
Forward

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Investment Analysis and Portfolio Management

Module

Index

Contents  Page No.
Chapter 1 Objective of Investment Decisions  1-8
Chapter 2 Financial Markets  9-20
Chapter 3 Fixed Income Securities  21-31
Chapter 4 Capital Market Efficiency  32-34
Chapter 5 Financial Analysis and Valuation  35-45
Chapter 6 Modern Portfolio Theory  46-53
Chapter 7 Valuation of Derivatives  54-59
Chapter 8 Investment Management  60-65
Model Test Paper  66-74
Chapter 1
Objective of Investment Decisions

Q.1 Investments can be made into financial assets like ___________
   A. Stocks
   B. Bonds
   C. Houses
   D. All the above

Q.2 The underlying objective of portfolio management is to create a balance between the trade-off of returns and risk across multiple assets Classes.
   A. True
   B. False

Q.3 ___________ is the art of managing the expected return requirement for the corresponding risk tolerance.
   A. Portfolio Management
   B. Asset Management
   C. Risk Management
   D. None of the above

Q.4 Portfolio manager’s objective is to maximize the return subject to the risk-tolerance level or to achieve a pre-specified level of return with Minimum risk.
   A. True
   B. False

Q.5 Types of investors depends on __________
   A. On their investment styles
   B. Mandates
   C. Horizons
   D. All of the above

Q.6 Risk appetites and return requirements are same across investor classes
   A. True
   B. False

Q.7 Individuals averse to risk in their portfolio. They would like to invest in investments like __________
   A. Government Securities
   B. Bank Deposits
   C. Both of the above
   D. None of the above

Q.8 Individuals who are risk takers who would like to invest and/or speculate in the equity markets
A. True
B. False
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Chapter 2
Financial Markets

Q.9 New stocks/bonds are sold by the issuer to the public in the __________
A. Derivative market
B. Secondary Market
C. Money Market
D. Primary Market

Q.10 When a particular security is offered to the public for the first time, it is called an Initial Public Offering (IPO).
A. True
B. False

Q.11 When an issuer wants to issue more securities of a category that is already in existence in the market it is referred to as IPO
A. True
B. False

Q.12 It is generally difficult to price a security during a Follow-up Offering since the market price of the security is not available before the company comes up with the offer.
A. True
B. False

Q.13 In the case of an IPO it is very easy to price the offer since there is prevailing market for the security.
A. True
B. False

Q.14 If the issue is _______ the company stands to lose notionally since the securities will be sold at a price lower than its intrinsic value
A. Overpriced
B. Underpriced
C. Equal price
D. None

Q.15 The ________ also known as ‘aftermarket.’
A. Secondary market
B. Primary Market
C. Capital Market
D. Derivative Market

Q.70 The default risk is _____ for corporate bonds; they are usually issued at a ____ discount than equivalent Government bonds.
A. Higher, Higher
B. Less, Less
C. Less, Higher
D. Higher, Less

Q.71 Corporate bonds are classified as __________
A. Secured bonds
B. Unsecured bonds
C. Both of the above
D. None of the above
Q.72 _______ debentures have a lower priority than bonds in claim over a firm’s assets.
A. Secured
B. Unsecured
C. Subordinated
D. None of the above
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CHAPTER 5
Financial Analysis and Valuation

3. Operating expenses include the costs of these goods and services and the costs incurred during the manufacture.
   A. True
   B. False

4. A ________ provides an account of the total revenue generated by a firm during a period (usually a financial year or a quarter), the expenses involved and the money earned.
   A. Cash flow statement
   B. Profit and loss statement
   C. Both
   D. None

5. Balance sheet of a company is a snapshot of ______________
   A. Cash flow of the company
   B. The sources and applications of funds of the company
   C. Both
   D. None

6. __________________ include net income generation adjusted for changes in working capital and non-core accruals.
   A. Income statement
   B. Cash flow from operations
   C. Cash flow in financial activities
   D. Cash flow from investing activities

7. ____________ are net result of the firm’s borrowings, and payments during the period.
   A. Income statement
   B. Cash flow from operations
   C. Cash flow in financial activities
   D. Cash flow from investing activities

8. A firm’s ________ comprise fixed, and current assets, sometimes into other firms and generally represent negative cash flows.
   A. Income statement
   B. Cash flow from operations
   C. Cash flow in financial activities
   D. Cash flow from investing activities
35. Retention ratio is the opposite of dividend payout ratio and measures the percentage of net income not paid to the shareholders in the form of dividends.

A. True
B. False

36. Retention Ratio is

A. DPS / EPS
B. EPS / DPS
C. 1 – DPS
D. 1 – EPS
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CHAPTER 7
Valuation of Derivatives

1. The underlying asset for a derivative contract can be __________.
   A. Equity
   B. Interest rate
   C. Commodities
   D. Any of the above

2. Which of the following cannot be an underlying asset for a financial derivative contract?
   A. Equity Index
   B. Commodities
   C. Interest Rate
   D. Foreign Exchange

3. Which of the following cannot be an underlying asset for a financial derivative contract?
   A. Equity index
   B. Interest rate
   C. Commodities
   D. Foreign

4. In a __________ contract the process of trading, clearing and settlement does not happen instantaneously.
   A. Spot
   B. Forward
   C. Both of the above
   D. None of the above

5. Which of the following are derivatives?
   A. Stocks
   B. Bonds
   C. Forward Rate Agreements
   D. All of the above

6. Futures and forwards are similar in the following respect_____.
   A. settlement of contract takes place in the future
   B. they have settlement guarantee
   C. positions are marked-to-market everyday
   D. contracts are custom designed

7. Two persons agree to exchange 100 gms of gold three months later at Rs. 400/gm. This is an example of a
   A. Future Contract
   B. Forward Contract
   C. Spot Contract
   D. None of the above

8. A ____ contract is an agreement to buy or sale an asset on a specific date for specified price.
   A. Option
9. A forward contract is an agreement____________
A. To buy or sell an asset of a certain time in the future at a certain price
B. To buy or sell asset on a specific date for a specified price
   A. A is correct
   B. B is correct
   C. Both are correct
   D. Both are incorrect
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MODEL TEST
INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT MODULE

1. __________ would mean that no investor would be able to outperform the market with trading strategies based on publicly available information.

   A. Semi strong form efficiency
   B. Weak form efficiency
   C. Strong form efficiency

2. A company's __________ provide the most accurate information to its management and shareholders about its operations.

   A. Advertisements
   B. Financial statements
   C. Products
   D. Vision statement

3. ______ Fund managers try to replicate the performance of a benchmark index, by replicating the weights of its constituent stocks.

   A. Active
   B. Passive

4. Unlike term insurance, __________ ensure a return of capital to the policyholder on maturity, along with the death benefits.

   A. High premium or low premium policies
   B. Fixed or variable policies
   C. Assurance or endowment policies
   D. Growth or value policies

5. Gross Profit Margin = Gross Profit / Net Sales

   A. FALSE
   B. TRUE

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

   A. 630.05
   B. 620.05
   C. 600.05
7. Accounts payable appears in the Balance Sheet of companies.
   A. TRUE
   B. FALSE

8. A portfolio comprises of two stocks A and B. Stock A gives a return of 8% and stock B gives a return of 7%. Stock A has a weight of 60% in the portfolio. What is the portfolio return?
   A. 9%
   B. 11%
   C. 10%
   D. 8%
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