



Security Analysis & Portfolio Management

11:00am to 1:00pm

Semester – III (Finance)

June 13, 2010

SECTION A (ONE MARKS)

(1) This is the process of managing investment portfolios by trying to match the performance of an index as closely as possible by holding all or a representative sample of the securities in the index.

- (a) Passive equity portfolio management
- (b) Active equity portfolio management
- (c) Both a and b
- (d) None of the above

Answer : A

(2) What is the basic misconceptions about EMH?

- (a) any shares portfolio will perform as well as or better than a special trading rule designed to outperform the market
- (b) there should be fewer price fluctuations
- (c) Both a and b
- (d) None of the above

Answer : C

(3) The main index for Hong Kong,

- (a) S & P 500
- (b) Hang Seng
- (c) MSCI
- (d) CAC-40

Answer : B

(4) What was the key assumptions of Markowitz Model?

- (a) All investors have the same expected single period investment horizon.
- (b) investors are rational and behave in a manner so as to maximize their utility.
- (c) Both a and b
- (d) None of the above

Answer : C

(5) The most widely used German Index.

- (a) DAX
- (b) Dow Jones
- (c) MSCI
- (d) CAC-40

Answer : A

(6) The first step in the asset allocation is

- (a) Determination of the risk tolerance of the investor
- (b) Analysis of the investment opportunities in the capital market
- (c) Determination of the expected return of the security
- (d) both a and c above

Answer : A

(7) These is bank-issued time deposit that specific an interest rate and maturity

negotiable .

- (a) Negotiable certificates of deposit
- (b) Treasury bill
- (c) Repurchase agreements
- (d) Commercial paper

Answer : A

(8) What is the key tools of technical analysis?

- (a) charting
- (b) technical indicators
- (c) sentiment indicators
- (d) all of the above

Answer : D

(9) An agreement entered between two parties to buy or sell an asset at a future date for an agreed price.

- (a) Put option
- (b) Future contract
- (c) Call option
- (d) Option

Answer : B

(10) What is the common risk factors in investment?

- (a) credit risk or the counterparty risk
- (b) inflation risk
- (c) market risk
- (d) all of the above

Answer : D

(11) A contract that gives the owner the right, but not obligation to sell the underlying asset by a specified data at a specified price.

- (a) Put option
- (b) Future contract
- (c) Call option
- (d) Option

Answer : A

(12) Inverse head and shoulder is a chart pattern that gives a single of reversal of _____.

- (a) Downtrend
- (b) Uptrend
- (c) Previous trend
- (d) Resistance

Answer : A

(13) When investments made in the country by foreigners is less than the investment in foreign countries made by local players it is known as _____

- (a) Capital account deficit
- (b) Current account deficit
- (c) current account surplus
- (d) capital account surplus

Answer : A

- (14) The regulatory body which regulates issues related to ADR is :
- (a) AMFI
 - (b) GSEC
 - (c) SEC
 - (d) SEBI

Answer : C

(15) Common types of constraints which individual investors should consider in order to establish an investment policy include _____.

- (a) risk tolerance, regulatory constraints and taxes
- (b) investment horizon, liquidity requirements and taxes
- (c) risk tolerance, return requirements and taxes
- (d) investment horizon, liquidity requirements and risk tolerance

Answer : D

(16) Which of the following is not true regarding the risk of portfolio.

- (a) Risk is associated with the uncertainty of an investment's performance.
- (b) The measure of risk emphasizes the extent of variability and volatility.
- (c) Liquidity risk is the possibility that borrowers repay the debt ahead of schedule.
- (d) Diversification reduces risk by spreading the portfolio across many investment

Answer : C

(17) If a 2-year redeemable bond is purchased and held till maturity, the rate of return earned is called

- (a) coupon rate
- (b) required rate of return
- (c) yield to maturity
- (d) current yield

Answer : C

(18) _____ are economic indicators that change after the economy has already begun to follow a particular pattern or trend.

- (a) Leading Indicators
- (b) Coincident Indicators
- (c) Lagging Indicators
- (d) None of Above.

Answer : C

(19) Which of the following is not one of the reason for international investment?

- (a) Diversification
- (b) Taking advantage of growth in foreign economy
- (c) Better return on investment
- (d) None of these

Answer : D

(20) An investment operation is one which, upon thorough analysis, promises safety of principle and an adequate return. Operation not meeting these requirements are speculative. This is inference from a famous investor, _____

- (a) Warren Buffet
- (b) Philips Phisher

- (c) Benjamin Graham
(d) Treynor

Answer : C

() SECTION B

- (21) _____ usually mirrors the movements of the business cycle.
(a) Leading indicators
(b) Coincident indicators
(c) Lagging indicators
(d) None of the above

Answer : B

- (22) ___ reflects a country's international monetary transactions for a specific time period.

- (a) GDP
(b) Inflation
(c) BOP
(d) The exchange rate

Answer : C

- (23) _____ is one of lower lows and lower highs .

- (a) downtrend
(b) uptrend
(c) sideways
(d) horizontal trend

Answer : A

- (24) _____ is the chance that the purchasing power of the invested rupees will decline.

- (a) Market risk
(b) Inflation risk
(c) Interest rate risk
(d) Credit risk

Answer : B

- (25) _____ is the possibility that a company that issues bonds is unable to make the contractual coupon and principal payments and default on its debt.

- (a) Investment risk
(b) Market risk
(c) credit risk
(d) Inflation risk

Answer : C

- (26) _____ is mutual funds, put and call options etc.

- (a) Derived instruments
(b) Primary securities
(c) Physical assets
(d) None of the above

Answer : A

- (27) Study the following data
Risk-free 10% Market return 15%
Beta A 0.95 Beta B 1.05
The required rate of return on the two stocks A and B are

- (a) 11% and 15% resp
(b) 14.75% and 15.25% resp
(c) 14.75% and 18.25% resp
(d) 15.25% and 18.25% resp

Answer : B

(28) _____ leads all investors to invest in the tangency portfolio (M portfolio) which is the ideal investment decision.

- (a) CML
(b) SML
(c) LML
(d) PML

Answer : A

(29) A bond which gives the bondholder the option to exchange the bond for common stock prior to maturity is a _____.

- (a) Callable bond
(b) floating rate bond
(c) puttable bond
(d) convertible bond

Answer : C

(30) ___states that stock prices fully reflect all information from public and private sources.

- (a) strong-form EMH
(b) technical analyst
(c) weak-form EMH
(d) all of the above

Answer : A

(31) _____ refers to whether prices reflect "true value".

- (a) informational efficiency
(b) allocation efficiency
(c) operational efficiency
(d) market efficiency

Answer : A

() SECTION C

(32) For the purpose of NAV, debt instruments should be valued at

- (a) Yield to maturity.
(b) Redemption price.
(c) Purchase price.
(d) Market value if any.

Answer : B

(33) An example of a depreciable asset is

- (a) land
(b) cash
(c) accounts receivable
(d) equipment

Answer : D

Arrange the following steps in an order as they are required in calculating duration of bonds: (i) find present value of each coupon (ii) multiply the present value by the year in which the cash flow is to be received (iii) add the values obtained and divide by the price of the bond to get the value of duration

- (a) ii, i, iii
- (b) i, ii, iii
- (c) iii, ii, i
- (d) iii, i, ii

Answer : B

(35) The process of earning abnormal risk by trading simultaneously in the spot and futures market is called

- (a) Stock index arbitrage.
- (b) Basis trading.
- (c) Program trading.
- (d) none of the above.

Answer : A

(36) Consider the data given below
Market price of the bond = Rs.95
Years to maturity = 6
Coupon rate = 13% payable annually
Issue price Rs.100
For this bond the approximate yield to maturity is

- (a) 13.18%
- (b) 14.18%
- (c) 15.18%
- (d) 16.18%

Answer : B

(37) The value of beta does not depend on _____

- (a) Numbers of observations used
- (b) Specific time period used
- (c) Market index used
- (d) Return on stock

Answer : D

(38) Corporate bond indenture agreements often specify each of the following EXCEPT

- (a) bond call provisions
- (b) sinking fund requirements
- (c) restrictions on the corporation's dividend payments
- (d) assets on which debenture issues are collateralized

Answer : D