PRACTICE QUESTIONS_FIN201_TIME VALUE OF MONEY_SUMMER 2025

TRUE/FALSE

1. Money has time value because you forgo something certain today for something uncertain tomorrow.
2. The lower is the compounding period, the higher is the effective rate of interest.
3. Financial analysis requires an explicit consideration of time value of money because most financial problems at corporate and individual level involves cash flows occurring at different points in time.
4. Given a principal amount of Rs. 10,000 to be invested for 9 months, it is better to invest in a scheme that offers 12% annual compound interest than investing in a scheme that earns 12% simple interest.
5. A bank that pays 10% interest compounded annually pays a higher effective rate of interest than a bank that pays 10% interest compounded quarterly.

MCQS

1. An investment of Rs.5000 in a deep discount bond will return Rs. 1,00,000 in 20 years. Find the interest rate implicit in the offer?
   A. 16.72%
   B. 15.234%
   C. 17.121%
   D. 16.159%
2. If a bank offers to double your money in 8 years, what is the effective rate of interest?
   A. 8.9%
   B. 9.7%
   C. 10.2%
   D. 9.05%
3. In how much period Rs. 1 becomes Rs. 3 at 12% rate of interest compounded annually.
   A. 12 years
   B. 8 years
   C. 10.42 years
   D. 9.69 years
4. The difference between effective annual rate of interest with monthly and quarterly compounding, when nominal rate of interest is 10% is;
   A. 0.10%
   B. 0.14%
   C. 0.21%
   D. 0.09%
5. If the effective rate of interest compounded quarterly is 16%, then the nominal rate of interest is:
   A. 14.6%
   B. 15%
   C. 14.8%
   D. 15.12%
6. Given an investment of Rs. 10,000 to be invested for one year;
   A. It is better to invest in a scheme that pays 10% simple interest.
   B. It is better to invest in a scheme that pays 10% annual compound interest.
   C. Both (a) and (b) provide the same return