1- Calculate the "Underwriting spread" with the given details:
   - ✓ Stock value of Infocom at IPO was $204 per share
   - ✓ Infocom gave it at $200 per share to the Underwriter, Citi
   - ✓ Infocom listed on exchange at $225 per share
   - ✓ issue size was 1million shares and was oversubscribed by 10 times

   A. **$4000000**
   B. $40000000
   C. $25000000
   D. $150000000

Explanation:-

What is the 'Underwriting Spread

The underwriting spread is the spread between the amount underwriters pay to an issuing company for its securities and the amount the underwriters receive from selling the securities in the public

In this question underwriter Citi paid to infocom $200 per share and sold to public for $204 per share in this way they made $4 per share and the total issue size is 1 million that is why in this question Underwriters spread will be:

4*1000000=4000000 (so the right answer is option **A**)

Other detail as oversubscription 10 times has nothing to do with underwriting spread.

2- Suppose you have 200 shares trading at $90. The corporation announces a 10% Stock Dividend (Bonus Shares) and rights issues (1 for 10 @ $50 each) on post bonus holding. What is the most probable new share price in the market on the Ex-date?
   A. $80
   B. $60
   C. $72.72
   D. **$78.92**

Explanation

10 % bonus

That means post bonus holding=220 shares

Total value of 200 shares @ $ 90=200*$90=$18000

Right issue 1for 10@ $50

Post right issue no of shares allotted @ $50 = 220/10=22shares (22*$50=$1100)

Total no of stocks in holdings=242

Most probable value of stock post Ex date = (18000+1100)/242=$78.92

So the right answer is **D**

3- If an investor paid $5 for a put option with an exercise price of $50 that is in-the-money $3, the price of the underlying is closer to

    A. 53
    B. 58
    C. 47
    D. 48

Explanation-

A put option is said to be **in the money** when the strike price of the put is above the current price of the underlying stock. It is "in the money" because the holder of this put has the right to sell the stock **above** its current market price. When you have the right to sell anything above its current market price, then that right has value. That "intrinsic value is equal to at least the amount that your strike price is above the market price.

In this example

Strike price or exercise price for the option is - $50

And the option is in the money by $3

It means the underlying must be closer to- ($50-$3)=$ 47

So the right answer is 47 option **C**

4- Power com traded in NYSE at $220 and it declares dividend of 20% percent on its common share, if you are holding 1000 shares, how much dividend will you receive?
    A. $ 20 per share
    B. $ 14.4 per share
    C. $ 44 Per Share
    D. Can't be determined based on the above information

Explanation-

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property.

Current market price- $220

Dividend declared – 20%

No of shares in holdings – 1000

Dividend is calculated as a percentage of face value but here in this problem face value of the stock is missing so it cants be determined on the basis of given information

Suppose face value was given as $ 10 then we can calculate dividend per share (20% of 10 that is $2)

So the answer is **D**

5- An option contract with strike 5050 with the underlying trading at 5500
   I)   Is in the money if it is a put option
   II)   It is In the money if it is a call option
   III)   It is Out of the money if it is a call option
   IV)   It is Out of the money if it is a put option
   A. I and III
   B. II and IV
   C. I and II
   D. II only

Explanation- Moneyness terms

At the money:- An option is at the money (ATM) if the strike price is the same as the current spot price of the underlying security. An at-the-money option has no intrinsic value, only time value

In the money:- An in the money (ITM) option has positive intrinsic value as well as time value. A call option is in the money when the strike price is below the spot price. A put option is in the money when the strike price is above the spot price.

Out of the money:- An out of the money (OTM) option has no intrinsic value. A call option is out of the money when the strike price is above the spot price of the underlying security. A put option is out of the money when the strike price is below the spot price.

So as per above money ness concept only option **B** supports.

6- An Investor Buys 5 lots of Facebook Inc. futures at $665 each and sells it at $527 each. If one contract is 500 shares, what is the Profit/Loss in the transaction?
   A. Profit $49000
   B. Loss $69000
   C. Profit $69000
   D. Loss $345000

Explanation

Normal Profit/Loss= (Sell price-Buy price)

Buy price-$665

Sell price- $527

Lot size- 500 share

No of lot-5

Profit/Loss for each share= $527-$665= -$138 Loss

Loss in the transaction=(-$138)(500)(5)= Loss $345000

So the right option is **D**

7- On a given day the following trades are executed on a common stock XYZ in a stock exchange
   Member A buys 25000 shares from Member B
   Member C sells 12000 shares to Member A
   Member A sells 15000 shares to Member D
   Member E sells 7000 shares to Member A
   The net obligations of Member A on the common stock ABC for the given day is

   A. Member A to receive 29000 shares
   B. Member A to deliver 27000 shares
   C. Member A to receive 3000 shares
   D. Member A to deliver 3000 shares

Explanation-

Net obligation for any member for stock ABC = No of stocks bought-No of stocks sold

In this case net obligation of Member A is=(Total bought quantity-Total sold quantity)

[(25000+12000+7000)-(15000)]= 29000 to receive

So the right option is **A**

8- Investors subscribe for a close ended mutual fund, offered in the month of Oct 2015 under the NFO (New Fund Offer). It has front load of 3% and exit load of 2% (for first year). Mutual fund was offered at $20 in the NFO. What is the profit/loss incurred if it is redeemed in Nov 2015 at NAV of $20
   A. $0.50 Loss
   B. $0.40 Loss
   C. No profit / No Loss
   D. Close ended fund, can't be redeemed before 6 months

Explanation-

At the time of issue NAV was= $20

Front load 3% of $ 20=0.60

But at the time of redemption NAV was $20 again

Exit load =2%on $20=$ 0.40

Redemption price=$20-.$40=$19.60

Profit/Loss= Sell price-Buy price=$19.60-$20=-$ 0.40

So the right option is **B**

9- GSPLLtd. issued its IPO at the price of INR. 700 per share, each share has the face value of INR. 10.Currently, shares are trading at INR.732 with an outstanding shares of 2 million. What is the market capitalization of GSPL Ltd.?

   A. INR 5000000000
   B. INR 1464000000
   C. INR 100000000
   D. INR 1000000

Explanation

Market capitalization=Current market price of the stock*No of outstanding shares

=732*2000000=**1464000000**

So the right answer is **B**

10- John has sold short 2000 shares of super stores at a price of $63 per share. He has also simultaneously placed a "good –till-cancelled, stop buy order $67" order. Excluding transaction costs, what is the maximum possible gain/loss that John can have?
   A. **Loss of $8000**
   B. Gain of $8000
   C. No Loss No Gain as the order was Stop Buy Order
   D. Cannot be determined with the above data

Explanation-

GTC-A **good 'til canceled** (GTC) order can be placed by an investor to buy or sell a security at a specified price that remains active **until** it is either rescinded by the investor or the trade is executed. GTC orders offer an alternative to placing a sequence of day orders, which expire at the end of each trading day.

In this question

Selling price=$63

Quantity sold=2000

GTC stop buy order placed at $67

It means that if price moved to 67 the stock will be bought

And in this case John will book a loss of $4 in each share

So total loss=2000*$4=$8000

So the right option is **A**

11- If a company ABC is with 10,000,000 outstanding shares is currently trading at $18 a share and earnings over the last 12 months were 6 million dollars. The industry P/E ratio is 20. Which of the following is most likely correct for the company ABC?

   A. With a P/E of 20, the stock is at par with industry P/E ratio
   B. With a P/E of 1.25, the stock is undervalued
   C. **With a P/E of 30, the stock is overvalued**
   D. With a P/E of 16, the stock is undervalued

Explanation

Earnings per share (**EPS**) is the portion of a company's profit allocated to each outstanding **share** of common **stock**. **Earnings per share** serves as an indicator of a company's profitability. However, data sources sometimes simplify the calculation by using the number of **shares** outstanding at the end of the period.

In this example EPS is= 6000000/10000000=.60

P/E is short for the **ratio** of a company's share price to its per-share earnings. As the name implies, to calculate the **P/E**, you simply take the current stock price of a company and divide by its earnings per share (EPS): **P/E Ratio = Market Value per Share. Earnings per Share (EPS)**

In this example PE ratio=Price of the stock/ EPS

PE ratio=18/.60=30

So PE for the company is 30 and this is higher to the industry PE that's why it is overvalued as per the industry PE which is only 20

So the right option is **C**

12- What is the earning per share (EPS) for ABC Corp that earned $700,000 in after-tax profits, has 150,000 common shares outstanding, 500,000 Authorized Shares and $1.4 million in retained earnings at the year end?

    A. $1
    B. $1.5
    C. $4.66
    D. None of the above

Explanation-

EPS = net income / average outstanding common shares

=700000/150000=$4.66

Rest of the information is not required to calculate EPS

So the right option is **C**

13- Suppose you buy an asset at $58 and sell a futures contract at $60. What is your profit at expiration after closing the positions and the asset price goes to $56? What is your overall profit or loss?

A. $ -1
B. $4
C. $ -4
D. $2

Explanation-

Profit or loss on cash buy= sell price – buy price=$58-$56= loss of $2

Profit or loss on Futures=Sell price – buy price= $60-$56= Profit of $4

Overall profit/Loss= $2 profit

So the right option is **D**

14- An investor buys a call Option contract of stock A with Spot Price of underlying security is $ 101, Strike Price is $ 100 and Premium is $3. On Expiry of the Option the Spot price is $109. Net profit for the Investor is ___

A. $ 8
B. $ 7
C. $ 2
D. $ 6

Explanation-

Payoff for call option=Spot price of underlying at expiry - Strike price

=$109 -$100=$9

Net profit= Pay off- premium paid=$9-$3=$6

So the right option is **D**

15- A trader enters into a short forward contract on 50 million yen. The forward exchange rate is $0.0060 per yen. How much does the trader gain/loose if the exchange rate at the end of the contract is $0.0071 per yen?

    A. Loss $55000
    B. Gain $55000
    C. Loss $125000
    D. Gain $110000

Explanataion-

In this question exchange price moved from $ 0.0060 to $ 0.0071

Trader sold 50 million yen when exchange rate was $0.0060 and he has to buy back at exchange rate of $0.0071

Loss in each yen exchange= ($0.0071-$0.0060)=0.0011

Total loss= (0.0011)*(50)(1000000)= $55000

So the right option is **A**

16- An Investor buys 2 current month future contracts of Facebook for $450 and $445. Place a 1 lot GTC limit cover order at $465. EOD data: Closing price $430, one lot long position. Calculate what is the settlement instruction generated on this account? (1 Facebook contract = 1000 shares)

    A. Debit $35,000
    B. Debit $17,500
    C. Credit $17,500
    D. Nil

Explanation- In this question

✓ 1st action is two contracts bought at $ 450 and $ 445
✓ 2nd action is one GTC (Good till cancelled) order placed at $465

EOD data suggests that-

✓ Closing price is $ 430 per share

✓ Only one lot long position (That means GTC order which was placed at $ 465 got executed)

Now suppose the contract which was bought at $ 450 was covered at $ 465 that means there is a profit of ($ 465 - $ 450= $ 15 per share)

Total profit in this trade will be = ($15*1000 = $15000) as lot size is 1000 given in the question (This $ 15000 will be credited in the clients margin account at the EOD)

Now the 2nd lot which was bought at $ 445 is in the long position and closing price per share for the day is $ 430 this trade should be settled mark to market

That means on this position client will lose ($ 445 - $ 430= $ 15 per share) and ($ 15*1000= $ 15000 on the open position of one lot)

So final settlement instruction for each trade

✓ 1st trade which was covered = + $ 15000
✓ 2nd open position for one lot= - $ 15000

Final settlement instruction for the account will be = (+ $ 15000) + (- $ 15000) = NIL

So the right option is **D**

17- If you buy a one year maturity bond with a 10% coupon at $960, Face value of Bond being $1000, it has _____ YTM.
   A. 10%
   B. **14.58%**
   C. 10.53%
   D. 9.70%

Explanation

A maturity for this bond is one year so total cash flow will be at the maturity= last coupon payment+ face value

Current market price is =960

Coupon =10 %

YTM=(100+40)/960

=14.58%

So the right option is **B**

18- Alibaba started the year with total assets of $5,00,000 and total liabilities of $3,00,000. During the year the business recorded $15,00,000 in revenues, $9,00,000 in expenses. Stockholders' equity at the end of the year was?

A. $8,00,000
B. $9,00,000
C. $2000000
D. $1700000

What is 'Stockholders' Equity'

Stockholders' equity is the portion of the balance sheet that represents the capital received from investors in exchange for stock (paid-in capital), donated capital and retained earnings. Stockholders' equity represents the equity stake currently held on the books by a firm's equity investors. It is calculated either as a firm's total assets minus its total liabilities or as share capital plus retained earnings minus treasury shares.

Stockholders' Equity = Total Assets - Total Liabilities
OR
Stockholders' Equity = Share Capital + Retained Earnings - Treasury Shares

In this example stockholders equity=Total asset(500000)-Total liability(300000)+retained earnings(600000)
=800000

So the right answer is A

3rd days settlement at $85.50 that means (85.50-84.25)=$25 should be deducted from the account

In that case 3rd days account position will be=$185-$25=$160

So the right option is **B**