

## READING COMPREHENSION

### PASSAGE

Finance consists of three interrelated areas; (1) money and capital markets, or macro finance, which deals with many of the topics covered in macroeconomics; (2) investments, which focuses on the decisions of individuals and financial institutions as they choose securities for their investment portfolios; and (3) financial management, or "business finance," which involves the management of the firm. Each of these areas interacts with the others, so a corporate financial manager must have a good knowledge of both capital market operations and the way investors appraise securities.

Financial management has undergone significant changes over the years. When it first emerged as a separate field of study in the early 1900s, the emphasis was on the legal aspects of such matters as mergers, consolidations, the formation of new firms, and the various types of securities issued by corporations. Industrialization was sweeping the country, and the critical problem faced by firms such as U.S. Steel and Reynolds Tobacco was in obtaining capital for expansion. The capital markets were relatively primitive, which made transfers of funds from individual savers to businesses difficult. The earnings and asset values reported in accounting statements were unreliable, and stock trading by insiders and manipulators caused prices to fluctuate wildly. Consequently, investors were reluctant to purchase stocks and bonds. As a result of these environmental conditions, finance in the early 1900s focused on legal issues relating to the issuance of securities.

The emphasis remained on securities through the 1920s. However, radical changes occurred during the depression of the 1930s, when an unprecedented number of business failures shifted the focus to bankruptcy and reorganization, to corporate liquidity, and to governmental regulation of securities markets. Finance was still a descriptive, legalistic subject, but the emphasis changed from expansion to survival.

During the 1940s and early 1950s, finance continued to be taught as a descriptive, institutional subject, viewed from the standpoint of an outsider rather than from that of management. However, financial management techniques designed to help firms maximize their profits and stock prices were beginning to receive attention.

A movement towards rigorous analysis developed during the late 1950s. Also, the major emphasis began to shift from the right-hand side of the balance sheet (liabilities and equity) to asset analysis. Computers were beginning to be used, and models were being developed to help manage inventories, cash, accounts receivable, and fixed assets. Increasingly, the focus of finance shifted from the outsider's to the insider's point of view, and financial decisions within the firm came to be recognized as the critical issue in corporate finance. Descriptive, institutional materials on capital markets and financing instruments were still studied, but these topics were considered in terms of their effects on corporate financial decisions.

The 1960s and 1970s witnessed a renewed interest in the liabilities and equity side of the balance sheet, with a focus on (1) the optimal mix of securities and (2) the way in which individual investors make investment decisions, or portfolio theory, and the implications of both topics for corporate finance. Corporate financial management was redesigned to help general management take actions that would maximize the value of the firm and the wealth of its stockholders, giving recognition to the fact that the results of corporate financial decisions depend upon how investors react to them. This recognition produced a blending of investment theory into corporate finance.

In the 1980s, four issues have received emphasis: (1) inflation and its effects on interest rates, (2) deregulation of financial institutions and the accompanying trend away from specialized institutions towards broadly diversified financial service corporations, (3) a dramatic increase in the use of telecommunications for transmitting information and computers for analyzing financial decisions, and (4) new and innovative methods for financing long-term investments. Inflation, including ways to combat it and to deal with it when it heats up, is being worked into the fabric of both financial theories and financial decision processes. New financial institutions and products have been created; for example, money market funds and interest rate futures. Also, older institutions have made major structural changes; so much so that today it is hard to tell a bank from a savings and loan association, or an insurance company from a brokerage firm. For example, Prudential Insurance owns a stock brokerage firm; Merrill Lynch

offers checking account services; and Sears, Roebuck is one of the largest U.S. financial institutions, owing such firms as All state Insurance, the Dean Witter brokerage house, and Coldwell Banker, the largest U.S. real estate brokerage company. Technological developments in the computer hardware and telecommunications areas, and the availability of software packages that make otherwise very difficult numerical analyses relatively easy, are bringing about fundamental changes in the way managers manage. Data storage, transmittal, and retrieval techniques are reducing the "judgemental" aspects of management, as financial managers can now obtain relatively precise estimates of the effects of alternative courses of action.

Several innovative financing techniques have emerged in the current era in response to changing economic conditions. For example, a market for high - risk, high - yield bonds known as junk bonds was developed to finance mergers and management buyouts of their own firms. Floating rate debt, in which the interest rate is changed periodically to reflect current market conditions, was introduced in the early 1980s to protect investors from the adverse effects of high inflation and fluctuating interest rates.

1. All of the following are false, as per the passage, except that :

- A. corporate financial management hindered the general management of the unit.
- B. financial decisions within the firm are matters of critical issues and are shaped more by an insider's viewpoint than by those of an outsider.
- C. technological developments in the computer hardware and telecommunications area have complicated numerical analyses.
- D. floating rate debt plunged the investors in harsher, inflationary and adverse circumstances.

2. As per the passage, floating rate debt was meant :

- A. to speculate favourably so that the basis for an investor to formulate a decision is sound.
- B. to augment the capital build-up of an upcoming unit.
- C. to protect investors from the adverse effects of high inflation and fluctuating interest rates.
- D. to help firms maximise their profits.

3. Which of the following is true with respect to the passage ?

- A. A corporate financial manager must have a good knowledge of both capital market operations and the way investors appraise securities.
- B. A corporate financial manager must be stern with the manpower and be able to extract work from them.
- C. Information on capital markets and financial instruments had no effect on and relevance to corporate financial decisions.
- D. All of the above.

4. Junk bonds, as per the passage :

- A. was a stop-gap arrangement for a sick company to extricate itself from the morass.
- B. was an idea mooted by Coldwell Banker, the largest U.S. real estate brokerage company.
- C. was developed to finance mergers and management buyouts of their own firms.
- D. None of the above.

5. The early part of the twentieth century, as the passage makes out, had finance :

- A. confined to buying and selling.
- B. confined to transfer of funds from individual savers to businesses.
- C. restricted to documentation as the centre of activity, in the event of partnership and consortium arrangements coming to the fore.

- D. was focussed on legal issues relating to mergers, consolidations, formation of new firms and various types of securities issued by corporations.
6. A suitable title for the passage could be :
- Investment Theory And Corporation Finance.
  - Capital Markets And Financial Decisions.
  - Changes In Financial Management Over The Years.
  - Corporate Sickness And Their Rehabilitation.
7. The change in the approach of financial management in the decades of the sixties and seventies, as per the passage, was manifest in the focus on :
- the optional mix of securities.
  - portfolio theory.
  - equity side of the balance sheet.
  - All of the above.
8. According to the passage, the floating rate debt is :
- a soft loan meant to assist the unit to surmount the distress and meet its contingent liabilities.
  - a bridge loan given by the financial institutions for the company to set right its account with them.
  - one in which the interest rate is changed periodically to reflect current market conditions.
  - a short term finance meant to help investors buy the best shares and keep the share market buzzing.
9. Which of the following best represents the feature of financial management in the current era ?
- The 'judgemental' aspects of management have been reduced on account of easy availability of the relatively precise estimates of the effects of alternative courses of action.
  - Management has become more complicated owing to dependence on computers.
  - 'Management By Coercion' is the in-thing in today's corporate world.
  - Legal Aspect of Management has scored over the financial aspect.
10. As per the passage, financial management is :
- restrictive, being supervisory in nature.
  - all encompassing, necessitating a knowledge of several things.
  - amenable to change and innovation in response to change in economic conditions.
  - All except (A).

#### ANSWERS

1.(B) 2.(C) 3.(A) 4.(C) 5.(D) 6.(C) 7.(D) 8.(C) 9.(A) 10.(D)

#### SENTENCE IMPROVEMENT

11. Slow as a snail, prone to delays, and overburdened by a ridership that grew by double digits in the last decade, the much-maligned F train is in dire need of a spruce-up.

- and overburdened by a ridership that grew by double digits in the last decade, the much-maligned F train is in dire need of a
- and overburdened with a ridership that is growing by double digits in the last decade, the much-maligned F train is in dire need of a
- despite overburdened by a ridership that grew by double digits in the last decade, the much-maligned F train is in dire need for a

D. and overburdened by a ridership which grew by double digits in the last decade, the much-maligned F trains are in dire need of a  
E. and overburdened by a ridership that has grown by double digits in the last last decade, the much-maligned F trains was in dire need of a

**Answer – A**

12. From Long Island to Buffalo, judges are sorting through duelling claims of electoral wrongdoing and election workers are pouring over ballots trying to determine the voters' intent.

- A. judges are sorting through duelling claims of electoral wrongdoing and election workers are pouring over ballots trying to determine
- B. judges were sorting in duelling claims of electoral wrongdoing and election workers pour over ballots trying to determine
- C. judges are sorting from duelling claims of electoral wrongdoing and election workers are pouring over ballots trying in an effort for determining
- D. judges are sorting through dual claims of electoral wrongdoing but election workers are pouring over ballots for trying to determine
- E. judges sort through duelling claims of electoral wrongdoing and election workers are pouring over ballots determining

**Answer – A**

13. A fund dedicated to collecting reparations of Holocaust survivors in the German government is defrauded of more than \$42 million over 16 years by a group that included six employees and custodians of the fund.

- A. collecting reparations of Holocaust survivors in the German government is defrauded of more than \$42 million over 16 years by a group that included
- B. the collection of reparations from Holocaust survivors from the German government had been defrauded of more than \$42 million over 16 years by a group that included
- C. collecting reparations for Holocaust survivors from among the German government was defrauded for greater than \$42 million over 16 years by a group including
- D. collecting reparations for Holocaust survivors from the German government was defrauded of as much as \$42 million in 16 years by a group which included

E. collecting reparations for Holocaust survivors from the German government was defrauded of more than \$42 million over 16 years by a group that included

**Answer – E**

14. In a continuous series of back of the napkin drawings Carl Richards, who is a financial planner, is explaining the basics of money through simple graphs and diagrams

- A. In a continuous series of back of the napkin drawings Carl Richards, who is a financial planner, is explaining the basics of money through simple graphs and diagrams
- B. In a continuing series of back of the napkin drawings Carl Richards, a financial planner, has been explaining the basics of money through simple graphs and diagrams
- C. In a continuing series involving back of the napkin drawings Carl Richards, a financial planner, has explained the basics of money by means of simple graphs and diagrams
- D. In a continuous series of back of the napkin drawings a financial planner, Carl Richards, had been explaining the basics of money through simple graphs and diagrams
- E. In a continuing series from back of the napkin drawings Carl Richards, a financial planner, was explaining the basics of money through simple graphs and diagrams

**Answer – B**

15. Last summer Google awarded \$1 million to professors involved with digital humanities research, and last year the National Endowment for the Humanities spent \$2 million on digital projects.

- A. awarded \$1 million to professors involved with digital humanities research, and last year the National Endowment for the Humanities spent \$2 million on
- B. awarded \$1 million for professors involved in digital humanities research, and last year the National Endowment for the Humanities spent \$2 million for
- C. had awarded \$1 million to professors involved with digital humanities research, and last year the National Endowment for the Humanities spent \$2 million on
- D. awarded \$1 million to professors involved with digital humanities research, but last year the National Endowment for the Humanities spent \$2 million for
- E. awarded \$1 million to professors involved with digital humanities research, whereas last year the National Endowment for the Humanities was spending \$2 million on

**Answer – A**

16. Stimulus measures are generally not very effective in countries like the U.S. with high debt and floating exchange rates

- A. Stimulus measures are generally not very effective in countries like the U.S. with high debt and floating exchange rates
- B. Stimulus measures were generally not very effective for countries such as the
- C. Stimulus measures are not very generally effective in countries like the U.S. having high debt and floating exchange rates
- D. Stimulus measures are generally not very effective in countries such as the U.S., countries with high debt and floating exchange rates
- E. Stimulus measures had generally not been very effective in countries like the U.S. with high debt and floating exchange rates

**Answer – D**

17. Black children are three times as likely to live in single parent households than white children and twice as likely to live in a home where no parent has full time or year round employment.

- A. three times as likely to live in single parent households than white children and twice as likely to live in a home where
- B. three times more likely to live in single parent households than white children and twice as likely to live in a home where

- C. three times more likely to live in single parent households than white children have been and double as likely to live in a home where
- D. three times more likely to live in single parent households as white children and twice as likely of living in a home where
- E. three times as likely to live in single parent households than white children are and twice more likely to live in a home where

**Answer – B**

18. The study, called the National Lung Screening Trial, focused on a specific high risk group: 53,000 current and former heavy smokers, aging from 55 to 74, which had smoked for at least 30 pack years

- A. group: 53,000 current and former heavy smokers, aging from 55 to 74, which had smoked for at least 30 pack years
- B. group: 53,000 current and former heavy smokers, aged 55 to 74, that had smoked for at least 30 pack years
- C. group: 53,000 current and former heavy smokers, aged 55 to 74, who smoked for at least 30 pack years
- D. group: 53,000 current and former heavy smokers, aged 55 to 74, who had smoked for at least 30 pack years
- E. group: 53,000 current and former heavy smokers, who were aged 55 to 74, and who had smoked for higher than at least 30 pack years

**Answer – D**

#### **FILL IN THE BLANK**

19. My uncle died without \_\_\_\_\_ a will, and it was very difficult for our family to sort out his money and possessions.

- A) doing B) make C) get D) making

**ANSWER-D**

20. We have some lovely new neighbors; we've already \_\_\_\_\_ friends with them.

- A) did B) made C) done D) make

**ANSWER- B**

21. I like to keep fit, so I \_\_\_\_\_ exercises every day.

- A) do B) make C) get D) hear

**ANSWER-A**

22. Before you go on holiday, you should \_\_\_\_\_ sure that the doors and windows are shut and locked.

- A) do B) make C) get D) hear

**ANSWER-B**

23. \_\_\_\_\_ money, not war!

- A) Do B) Make C) Study D) Get

**ANSWER- B**

24. I was \_\_\_\_\_ a queue waiting to buy some bread.

- A) in B) on C) at D) by

**ANSWER-A**

25. I looked \_\_\_\_\_ all the shelves and \_\_\_\_\_ all the cupboards.

- A) in / on B) on / in C) at / in D) at / on

**ANSWER-B**

26. They certainly weren't \_\_\_\_\_ the table or \_\_\_\_\_ the floor.

- A) in / on B) on / in C) at / in D) on / on

**ANSWER-D**

#### **SPOT THE ERROR**

27. It being rainy day, (c) / we decided not to go out (b) / but to stay at home (c) / and watch a movie. (d) / No error (e).

Correct Option : A. Add 'a' before 'rainy day'.

28. By all standards (a) / he is a best soldier (b) / our military school (c) / has produced so far. (d) / No error (e)  
Correct Option : B. Replace 'a' by 'the'

29. They have (a) / placed order (b) / for books. (c) / No error (d)  
Correct Option : b. Replace 'order' by 'orders'

30. My brother-in-laws (a) / who live in Delhi (b) / have come to stay with us. (c) / No error (d)  
Correct Option : a. Replace 'brother-in-laws' 'brother-in-law'

31. The customer handed over (a) / a five hundred-rupees note (b) / to the shopkeeper. (c) / No error (d)  
Correct Option : b. Replace 'rupees' by 'rupee'

32. The flock of lions (a) / roamed about (b) / fearlessly in the jungle. (c) / No error (d)  
Correct Option : a. Replace 'flock' by 'herd'.

33. I have done my best ; (a) / the whole thing is now (b) / in the laps of the God. (c) / No error (d)  
Correct Option : c. Replace 'laps' by 'lap'

34. One of the most (a) / widely spread (b) / bad habit (c) / is the use of tobacco. (d) / No error (e)  
Correct Option c. Replace 'habit' by 'habits'.

#### CRITICAL REASONING

35. Statement: Human activity is leading to the rapid draining of about one-third of the planet's largest underground water reserves and it is unclear how much fluid remains in them.  
Which of the following can be the probable reason(s) for the decline of water reserve?

- (a) Decline of population all around the world
- (b) Unauthorised digging by private builders
- (c) Lack of policymakers in the country
- (d) Excessive afforestation and inappropriate use of natural resources
- (e) Only (a) and (d)

36. Statement: The water situation is grim as the total storage in 91 main reservoirs across the country has gone below the last 10-year average, says the report of the Central Water Commission (CWC).

Which of the following may be the most probable reason for the fall in the level in reservoirs?

- (a) Less rainfall across the country
- (b) More use of water by the irrigation department
- (c) Depletion of ground level in the country
- (d) Less plantation of tree in the country
- (e) Wastage of water by the people of the country

37. Statement: The government is planning to put a cap on premature withdrawal of provident fund (PF) money. The employees' Provident Fund organization (EPFO) has proposed that an employee be allowed to withdraw only 75% off the overall kitty, instead of 100% as permitted earlier.

Which of the following may be an effect of the above decision taken by the government?

- (a) Premature withdrawal of such savings should be discouraged to ensure secure future for the employees
- (b) People who tend to withdraw PF money between jobs or those planning to use it for either buying a house for paying medical bills will not be able to withdraw the money
- (c) People will be able to withdraw more money at the time of retirement
- (d) People will invest in other flexible schemes in the market
- (e) None of the above

38. Statement: The government has decided to develop 25 regional airports in the country.

Which of the following will be an effect of the steps taken by the Government of India?

- (a) Regional connectivity in the country will be boost up.
- (b) Air travel for the common man will become cheaper.
- (c) Infrastructure development will be boost up in the country.
- (d) Jobs in the aviation sector will increase.
- (e) None of the above

39. Statement: Government-run Air India has launched a limited period super sale scheme, offering customers all-inclusive ticket prices starting as low as Rs. 1,499 on its domestic network.

Which of the following will not be an effect of this scheme?

- (a) More people will able to travel by flight with the launch of this scheme.
- (b) Other airlines will come down.
- (c) Air-India's profit will come down.
- (d) Fewer seats will be left vacant in Air India with the launch of this scheme.
- (e) None of the above

40. The temple at the religious site wears a deserted look with the number of devotees trickling down.

Which of the following can be a possible cause of the above effect?

- (a) A structural engineer had visited the temple a month back and had declared the structure unsafe.
- (b) The temple is facing a drastic depletion of its funds which had accumulated over the years due to offerings made by devotees.
- (c) The local corporation decided to donate a huge amount of money to the temple for its renovation.
- (d) The village housing the religious site has qualified priests to perform religious ceremonies.
- (e) A famous actor recently visited the temple and paid his respects to the deity.

#### ANSWERS

- 35. Answer: (b)
- 36. Answer: (a)
- 37. Answer: (d)
- 38. Ans.(a)
- 39. Ans.(c)
- 40. Ans.(a)