

1. At 10% annual inflation rate, an item costing Rs. 100 today, would cost Rs. _____ after two year.
- a) Rs. 141
 - b) Rs. 121
 - c) Rs. 142
 - d) Rs. 122
 - e) Not Attempted

Solution:

$$\begin{aligned}\text{Future value} &= \text{Present Value} (1 + \text{interest rate})^{\text{No. of years}} \\ &= 100 (1+ 0.1)^2 \\ &= 100 (1.1)^2 \\ &= \text{Rs. } 121 \text{ (b)}\end{aligned}$$

2. Which of the following is true?

- a) The initial public issues are made in primary market whereas all subsequent issues are made in the secondary markets.
- b) Primary markets are legal whereas secondary markets are not.
- c) Primary markets deal in shares whereas secondary markets are meant for debentures.
- d) Corporates raise resources directly from the investors through the Primary Market, whereas in the Secondary Markets, investors buy and sell securities from one another.
- e) Not Attempted

Solution:

- a) Public Market Includes both Initial Public Offer (IPO) and Future Public Offer (FPO)
 - b) Both Primary markets and secondary markets are legal
 - c) Both Primary markets and secondary markets deals with all types of securities such as Shares, Bonds & Debentures, Government securities, Derivatives and Mutual fund units.
 - d) True
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3. Which short-term (up to one year) instrument is issued by government as a means of financing it's cash requirements?

- a) ADRs
- b) Treasury bills
- c) Equity
- d) GDRs
- e) Not Attempted

Solution:

- a) ADR – American Depository Receipt – Physical certificate representing ownership of American Depository Shares.
- b) Treasury bills – Short term govt security (up to 1 year) – Correct.
- c) Equity – Functional ownership of a company.
- d) GDR – Global Depository Receipt – Global financial instruments for raising funds in multiple markets. Usually represented in fixed number of shares (e.g., 1 GDR = 10 Shares)
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4. The future value of a Rs.10,000 investment done today, which gives an annual rate of return of 10% per annum, after two years would grow to _____.

- (a) Rs. 12,100
- (b) Rs. 12,200
- (c) Rs. 12,500
- (d) Rs. 12,600
- (e) Not Attempted

Solution:

$$\begin{aligned}\text{Future value} &= \text{Present Value} (1 + \text{interest rate})^{\text{No. of years}} \\ &= 10000 (1 + 0.1)^2 \\ &= 10000 (1.1)^2 \\ &= 12100\end{aligned}$$

5. The benchmark stock market index of India is _____.

- a) S&P 500
- b) Nikkei 225
- c) Dow Jones
- d) the NSE Nifty 50
- e) Not Attempted

Solution:

d) the NSE Nifty 50

- The benchmark index of NSE.
 - 50 largest and most liquid companies.
 - Uses free-float market cap method.
 - Represents Indian Market Movement.
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6. Profitability Ratio is measured as _____.

- a) sales growth of a firm

- b) future growth prospects of a company
- c) operating / management efficiency of a firm
- d) payout to shareholders
- e) Not Attempted

Solution:

- c) operating / management efficiency of a firm

- Profitability ratio measures profitability and operational / management efficiency.

7. Which of the following is the most suitable option for an investor with low risk appetite?

- a) Junk Bonds
- b) Equities
- c) Fixed Deposits
- d) Derivatives
- e) Not Attempted

Solution:

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- c) Fixed Deposits – low risk
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10. Which of the following is not a Leverage/Capital structure ratios?

- a) Interest Coverage
- b) Current Ratio
- c) Debt-Asset
- d) Debt-Equity
- e) Not Attempted

Solution:

Types:

- a. Debt to equity ratio
- b. Debt to asset ratio
- c. Interest coverage ratio
- d. Debt Service Coverage ratio

Ans: Current Ratio

11. Which rate of return accounts for intra-year compounding?

- a) Effective
- b) Stated
- c) Both of the above

d) None of the above

e) Not Attempted

Solution: a) Effective

Effective annual return is the actual annual return accounting for intra year compounding.

12. Which of the following is TRUE about Primary Markets?

- a) Primary Market is the place where public can buy and sell securities from one another.
- b) Primary Markets refer to the mobilization of funds from the public by corporates through the issue of shares / debentures.
- c) Primary Markets are places where only short term instruments are traded.
- d) Primary Markets are markets where commodities are sold.
- e) Not Attempted

Solution: b) Primary Markets refer to the mobilization of funds from the public by corporates through the issue of shares / debentures.

13. If a client buys shares worth Rs. 3,30,000 and sells shares worth Rs. 5,70,000 through a broker, then the maximum brokerage payable to the broker is _____.

- a) Rs. 22000
- b) Rs. 25000
- c) Rs.32500
- d) Rs. 22500
- e) Not Attempted

Solution:

Client Buys Shares Worth = Rs. 3,30,000

Sells Shares Worth = Rs. 5,70,000

$$\begin{aligned}\text{Maximum Brokerage} &= (3,30,000 + 5,70,000) * 2.5 \% \\ &= 9,00,000 * 2.5 \% \\ &= \text{Rs. } 22,500 \text{ (d)}\end{aligned}$$

14. Money market mutual funds can invest in _____.

- a) treasury bills
- b) certificate of deposits
- c) commercial paper
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

15. The holders of which instrument are members of the company and have voting rights?

- a) Commercial Paper
- b) Treasury Bill
- c) Debenture
- d) Equity
- e) Not Attempted

Solution: d) Equity

16. _____ is maintained by an Exchange to make good investor claims, which may arise out of non-settlement of obligations by the trading member, who has been declared defaulter, in respect of trades executed on the Exchange.

- a) Investor Protection Fund (IPF)
- b) Investor Reimbursement Fund (IRF)
- c) Investor Education and Reimbursement Fund (IERF)
- d) Investor Education and Protection Fund (IEPF)
- e) Not Attempted

Solution: a) Investor Protection Fund (IPF)

- Used when broker defaults and cannot meet obligations
 - Compensation limit: Rs. 25 lakhs per investor per defaulter.
 - Covers only trades on the exchange.
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17. How can an investor acquire equity shares?

- a) Secondary Market only
- b) Through the Primary Market or Secondary Market
- c) Money Market
- d) Primary Market only
- e) Not Attempted

Solution: b) Through the Primary Market or Secondary Market

18. What is the function of the securities market?

- a) A place where buyers and sellers of securities meet to enter into a transaction.
- b) A place where entrepreneurs can raise resources for their businesses.
- c) A place where various financial products such as shares, debentures, bonds, etc. are available for buying and selling.

d) All of the above

e) Not Attempted

Solution: d) All of the above

19. Calculate the value 4 years hence of a deposit of Rs. 1,000 made today if the interest rate is 8% (compounded annually).

a) Rs.1,320

b) Rs.1,040

c) Rs.1,000

d) Rs.1,360

e) Not Attempted

Solution:

$$\begin{aligned} FV &= PV (1+r)^t \\ &= 1000 (1+ 0.08)^4 \\ &= \text{Rs. } 1,360 \text{ (d)} \end{aligned}$$

20. At 10% annual inflation rate, an item costing Rs. 100 today, would cost Rs. _____ after one year.

a) Rs. 110

b) Rs.101

c) Rs.115

d) Rs. 109

e) Not Attempted

Solution:

$$\begin{aligned} FV &= PV (1+r)^t \\ &= 100 (1+0.1) \\ &= 100 * 1.1 \\ &= \text{Rs. } 110 \text{ (a)} \end{aligned}$$

21. _____ the interest coverage ratio better is the firm's ability to meet its interest burden.

a) Higher

b) Lower

c) Does not matter

d) None of the above

e) Not Attempted

Solution: a) Higher

- Earning before interest and taxes / Interest
 - Higher ratio \Rightarrow better ability to pay interest
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22. Which of the following is not true about ADR?

- a) An ADR is a U.S. dollar denominated form of equity ownership in a non-U.S. company.
- b) ADRs may be used in public or private markets inside or outside US.
- c) ADRs do not eliminate the currency risk associated with an investment in a non-U.S. company.
- d) ADR represents the foreign shares of the company held on deposit by a custodian bank in the company's home country.

e) Not Attempted

Solution: b) ADRs may be used in public or private markets inside or outside US.

23. _____ is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form.

- a) Materialisation
- b) Rematerialisation
- c) Conversion
- d) Dematerialization

e) Not Attempted

Solution: d) Dematerialization

24. The future value of a Rs.12,000 investment made today, which gives an annual rate of return of 10% per annum, after one year should be _____.

- a) Rs. 13,100
- b) Rs. 13,200
- c) Rs. 12,200
- d) Rs. 12,500

e) Not Attempted

Solution:

$$\begin{aligned} FV &= PV (1 + r)^t \\ &= 12000 (1 + 0.1) \\ &= (b) \text{ Rs. } 13,200 \end{aligned}$$

25. Book Building exercise through the NSE's on-line system offers the following benefits:

- a) A fair, efficient & transparent method for collecting bids using latest electronic systems.
- b) Costs involved in the issue are far less than those in a normal IPO.
- c) The system reduces the time taken for completion of the issue process.
- d) All of the above
- e) Not Attempted.

Solution: d) All of the above

26. If a client buys shares worth Rs. 2,25,000 and sells shares worth Rs. 5,75,000 through a broker, then the maximum brokerage payable to the broker is _____.

- a) Rs. 21000
- b) Rs. 25000
- c) Rs. 20000
- d) Rs. 22000
- e) Not Attempted

Solution:

Client Buys Shares Worth = Rs. 2,25,000

Sells Shares Worth = Rs. 5,75,000

$$\begin{aligned}\text{Maximum Brokerage} &= (2,25,000 + 5,75,000) * 2.5 \% \\ &= 8,00,000 * 2.5 \% \\ &= \text{Rs. 20,000 (c)}\end{aligned}$$

27. Which of the following is not true of Demat account?

- a) One is not restricted to having account with only one DP.
- b) One does not need to keep any minimum balance of securities in a Demat account with a DP.
- c) One cannot open more than one account with the same DP.
- d) One can dematerialise and hold investments such as debt instruments, mutual fund units, government securities etc. in a single demat account.
- e) Not Attempted

Solution: b) One cannot open more than one account with the same DP.

28. Which of the following is not true about Exchange Traded Funds (ETF)?

- a) An ETF is like a Bank deposit.
- b) An ETF represents a basket of stocks that reflect an index such as the Nifty.

- c) An ETF's price changes throughout the day, fluctuating with supply and demand.
- d) By owning an ETF, you get the diversification of an index fund plus the flexibility of a stock.
- e) Not Attempted

Solution: a) An ETF is like a Bank deposit

Exchange Traded Fund (ETF)

- Similar to index fund but trades like a stock
- Like Index funds, an ETF represents a basket of stocks reflects an index such as the NIFTY
- Isn't mutual fund; trades just like any other company on a stock exchange.
- Prices changes throughout the day.
- Lower expense ratio
- Offer diversification + Flexibility.

29. Who among the following can invest in the Debt market?

- a) Financial Institutions
- b) Retail Investors
- c) Mutual Funds
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

30. NCDEX is _____.

- a) National Commodities and Derivatives Exchange
- b) National Currency and Derivatives Exchange
- c) New York Commodity & Derivatives Exchange
- d) None of the above
- e) Not Attempted

Solution: a) National Commodities and Derivatives Exchange

31. Buying and selling of shares can be done through a _____.

- a) Depository
- b) Bank
- c) Stock Exchange
- d) Finance company
- e) Not Attempted

Solution: c) Stock Exchange

32. What is an ISIN?

- a) International Securities Identification Number
- b) Intermediate Securities Identification Nomenclature
- c) Internal Securities Identification Number
- d) Indian Securities Identification Number
- e) Not Attempted

Solution: a) International Securities Identification Number

33. In the balance sheet of a company, amounts due to the suppliers of goods and services brought on credit, will reflect under the head _____.

- a) Loans and Advances
- b) Current Liabilities and Provisions
- c) Miscellaneous expenditure
- d) Contingent Liabilities
- e) Not Attempted

Solution: b) Current Liabilities and Provisions

Current Liabilities

- A company may also accept advances from the customer. The company thus has a liability to pay through the payment is deferred. These are known as Current Liabilities.
 - The company may have to provide for certain expenses (not required to pay immediately) like dividend to shareholder, payment of tax etc. These are known as Provisions.
 - Net Working Capital = Current Assets – Current Liabilities
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34. Equity shares have mostly _____ all other forms of investments in the long term.

- a) remained neutral when compared to
- b) outperformed
- c) underperformed
- d) given negative returns when compared to
- e) Not Attempted

Solution: b) outperformed

35. Which of the following problems have been eliminated by Depositories?

- a) Reduction in the share transfer time to the buyer.

- b) Risk of stolen, fake, forged shares.
- c) Stamp duty on transfer of shares in dematerialized form.
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

36. What is the current yield if 11.50% bond sells in the market for Rs. 125?

- a) 9
- b) 9.2
- c) 9.25
- d) 9.15
- e) Not Attempted

Solution:

$$\text{Annual Coupon} = 11.50\% * 100 = \text{Rs } 11.50$$

$$\begin{aligned}\text{Current yield} &= (\text{Annual Coupon} / \text{Market Price}) * 100 = (11.50 / 125) * 100 \\ &= \text{Rs. } 9.2 \text{ (b)}\end{aligned}$$

37. Which is/are the ways by which companies can raise foreign currency resources?

- a) American Depository Share
- b) Global Depository Receipts
- c) Euro Issues
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

38. If a client buys shares worth Rs. 4,40,000 and sells shares worth Rs. 5,60,000 through a broker, then the maximum brokerage payable to the broker is _____.

- a) Rs. 12000
- b) Rs. 24000
- c) Rs. 25000
- d) Rs. 22000
- e) Not Attempted

Solution:

$$\text{Client Buys Shares Worth} = \text{Rs. } 4,40,000$$

Sells Shares Worth = Rs. 5,60,000

$$\begin{aligned}\text{Maximum Brokerage} &= (4,40,000 + 5,60,000) * 2.5 \% \\ &= 10,00,000 * 2.5 \% \\ &= \text{Rs. 25,000 (c)}\end{aligned}$$

39. Which of the following has voting rights in a company?

- a) Equity shareholders
- b) Creditors
- c) Debenture holders
- d) Preference shareholders
- e) Not Attempted

Solution: a) Equity shareholders

40. 'Ask' means the _____.

- a) Traded Price
- b) Market price
- c) Seller's price
- d) Buyer's price
- e) Not Attempted

Solution: c) Seller's price

- The ask is the price at which a seller is willing to sell a stock
 - You look at the ask price when you want to buy a stock
 - It shows the lowest price sellers are ready to accept
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41. What is an Index?

- a) A basket of shares
- b) An indicator of market movement.
- c) An indicator of the economic conditions of the country.
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

42. Listing of securities means _____.

- a) admission of securities of an issuer to trading privileges without a formal agreement with the stock exchange

- b) admission of securities of an issuer to trading privileges on a stock exchange through a formal agreement
- c) admission of securities of an issuer to clearing privileges on a stock exchange without a formal agreement
- d) admission of securities of an issuer to clearing privileges on a stock exchange through a formal agreement
- e) Not Attempted

Solution: b) admission of securities of an issuer to trading privileges on a stock exchange through a formal agreement

43. Nifty index is used in _____.

- a) Derivatives
- b) Index Funds
- c) Exchange Traded Funds (ETFs)
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

44. Which instrument among these have historically shown to give the highest returns when invested over long periods?

- a) Debentures
- b) Bank Deposit
- c) Equity
- d) Fixed Deposit
- e) Not Attempted

Solution: c) Equity

45. Demutualisation of stock exchanges refer to _____.

- a) the legal structure of an exchange whereby the ownership, the management and the trading rights at the exchange are segregated from one another
- b) the legal structure of an exchange whereby the ownership and the management at the exchange are segregated from one another
- c) the legal structure of an exchange whereby the ownership, the management and the trading rights at the exchange vests in one person
- d) None of the above
- e) Not Attempted

Solution: a) the legal structure of an exchange whereby the ownership, the management and the trading rights at the exchange are segregated from one another

46. Which of the following is not true about offer of shares through normal public issue?

- a) In normal Public issue, investors bid for shares at the floor price or above and after the closure of the process the price is determined for allotment of shares.
- b) In case of the normal public issue the demand for an issue is known at the close of the issue.
- c) In case of offer of shares through normal public issue price at which securities will be allotted is known to an investor in advance.
- d) None of the above
- e) Not Attempted

Solution: a) In normal Public issue, investors bid for shares at the floor price or above and after the closure of the process the price is determined for allotment of shares.

- It corresponds to book building process
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47. If a client buys shares worth Rs. 2,25,000 and sells shares worth Rs. 75,000 through a broker, then the maximum brokerage payable to the broker is _____.

- a) Rs. 7500
- b) Rs. 6000
- c) Rs. 6500
- d) Rs. 8000

Solution:

Client Buys Shares Worth = Rs. 2,25,000

Sells Shares Worth = Rs. 75,000

$$\begin{aligned}\text{Maximum Brokerage} &= (2,25,000 + 75,000) * 2.5 \% \\ &= 3,00,000 * 2.5 \% \\ &= \text{Rs. 7,500 (a)}\end{aligned}$$

48. The price band in book building is decided by _____.

- a) The market regulator
- b) The Stock Exchange
- c) the issuing company in consultancy with Merchant Bankers
- d) Controller of Capital Issue
- e) Not Attempted

Solution: c) the issuing company in consultancy with Merchant Bankers

49. What factor/s affect the interest rate?

- a) Government borrowings
- b) Supply of money
- c) Inflation rate
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

The factors which govern these interest rates are mostly economy related and are commonly referred to as macroeconomic factors. Some of these factors are:

- Demand for money
- Level of Government borrowings
- Supply of money
- Inflation rate

50. The Best Buy order is the order with the _____.

- a) Highest Buy price
- b) Average Sell price
- c) Average Buy price
- d) Lowest Sell price
- e) Not Attempted

Solution: a) Highest Buy price

The Best Buy order = Highest Buy price

The Best Sell order = Lowest Sell price

51. The future value of a Rs.12,000 investment, which gives an annual rate of return of 10% per annum, after two years would grow to _____.

- a) Rs. 14,750
- b) Rs. 14,500
- c) Rs. 12,600
- d) Rs. 14,520
- e) Not Attempted

Solution:

$$FV = PV (1 + r)^n$$

$$= 12000 (1+ 0.1)^2$$

= d) Rs. 14,520

52. The value of Rs.10,000 received today is _____ than the value of Rs. 10,000 received after one year.

- a) can't say
- b) the same
- c) more
- d) less
- e) Not Attempted

Solution: c) more

53. Which of the following is true about mutual fund?

- a) Mutual funds are risk-free investments.
- b) Mutual Funds assure fixed returns.
- c) In mutual funds the target investors are the High Net worth investors.
- d) None of the above
- e) Not Attempted

Solution: d) None of the above

54. T+2 settlement cycle in a stock exchange means, the trade is settled _____ days after the trade

- a) 1 day
- b) Same day as the trade
- c) 2 days
- d) 3 days
- e) Not Attempted

Solution: c) 2 days

55. Who are the participants in the Securities Market?

- a) Investor
- b) Intermediaries, such as merchant bankers, brokers etc.
- c) Issuers, i.e. companies who issue shares
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

56. The safer the debt instrument, the _____ is the rate of interest.

- a) Lower
- b) Higher
- c) Safety of debt instrument will not have any impact on the interest rate
- d) None of the above
- e) Not Attempted

Solution: a) Lower

57. What will be the future value of Rs.12,000 invested today with an annual rate of return of 20% per annum after one year?

- a) Rs. 14,000
- b) Rs, 14,250
- c) Rs. 14,400
- d) Rs. 14,500
- e) Not Attempted

Solution:

$$\begin{aligned} FV &= PV (1 + r)^n \\ &= 12000 (1 + 0.2) \\ &= c) \text{ Rs. 14400} \end{aligned}$$

58. Calculate the value 5 years hence of a deposit of Rs. 1,000 made today if the interest rate is 8% (compounded annually).

- a) Rs.1,040
- b) Rs.1,400
- c) Rs.1,000
- d) Rs.1,469
- e) Not Attempted

Solution:

$$\begin{aligned} FV &= PV (1 + r)^n \\ &= 1000 (1 + 0.08)^5 \\ &= d) \text{ Rs.1,469} \end{aligned}$$

59. Stock Split leads to _____.

- a) No change in market capitalization

- b) Increase in the number of outstanding shares
- c) Decrease in the face value of the share of the company
- d) All of the above
- e) Not Attempted

Solution: d) All of the above

60. At 6% annual inflation rate, an item costing Rs. 100 today, would cost Rs. _____ after two years.

- a) Rs. 124.30
- b) Rs. 122.46
- c) Rs. 224
- d) Rs. 112.36
- e) Not Attempted

Solution:

$$\begin{aligned} FV &= PV (1 + r)^n \\ &= 100 (1 + 0.06)^2 \\ &= \text{d) Rs. 112.36} \end{aligned}$$
