

**FINANCIAL MARKETS: A
BEGINNER'S MODULE**

Note:

Financial Markets Beginners Module

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

[2 Marks]

- (a) Rs. 141
- (b) Rs. 121
- (c) Rs. 142
- (d) Rs. 122
- (e) Not Attempted

Correct Answer : Rs. 121

2. Which of the following is true?

[3 Marks]

- (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

Correct Answer : Corporates raise resources directly from the investors through the Primary Market, whereas in the Secondary Markets, investors buy and sell securities from one another.

3. Which short-term (up to one year) instrument is issued by government as a means of financing it's cash requirements?

[1 Marks]

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

Correct Answer : Treasury bills

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 _____.

[2 Marks]

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

Correct Answer : Rs. 12,100

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

[3 Marks]

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

Correct Answer : the NSE Nifty 50

6. Profitability Ratio is measured as _____.

[1 Marks]

- (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

Correct Answer : operating / management efficiency of a firm

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

[2 Marks]

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

Correct Answer : Fixed Deposits

8. Which securities amongst these have proved to be a better bet against inflation?

[1 Marks]

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

Correct Answer : Equity

9. The Best Sell order is the order with the _____.

[1 Marks]

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

Correct Answer : Lowest Sell Price

10. Which of the following is not a Leverage/Capital structure ratios?

[1 Marks]

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

Correct Answer : Current Ratio

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

[2 Marks]

- (a) Effective
- (b) Stated
- (c) Both of the above
- (d) None of the above
- (e) Not Attempted

Correct Answer : Effective

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

[3 Marks]

- (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

Correct Answer : 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 _____.

[2 Marks]

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

Correct Answer : Rs. 22500

14. Money market mutual funds can invest in _____.

[2 Marks]

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

Correct Answer : All of the above

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

[1 Marks]

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

Correct Answer : 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.

[2 Marks]

- (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

Correct Answer : Investor Protection Fund (IPF)

17. How can an investor acquire equity shares?

[2 Marks]

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

Correct Answer : Through the Primary Market or Secondary Market

18. What is the function of the securities market?

[1 Marks]

- (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

Correct Answer : 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).

[2 Marks]

- (a) Rs.1,320
- (b) Rs.1,040
- (c) Rs.1,000
- (d) Rs.1,360
- (e) Not Attempted

Correct Answer : Rs.1,360

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

[2 Marks]

- (a) Rs. 110
- (b) Rs.101
- (c) Rs.115
- (d) Rs. 109
- (e) Not Attempted

Correct Answer : Rs. 110

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

[1 Marks]

- (a) Higher
- (b) Lower
- (c) Does not matter
- (d) None of the above
- (e) Not Attempted

Correct Answer : Higher

22. Which of the following is not true about ADR?

[2 Marks]

- (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

Correct Answer : 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.

[1 Marks]

- (a) Materialisation
- (b) Rematerialisation
- (c) Conversion
- (d) Dematerialization
- (e) Not Attempted

Correct Answer : 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 _____.

[2 Marks]

- (a) Rs. 13,100
- (b) Rs. 13,200
- (c) Rs. 12,200
- (d) Rs. 12,500
- (e) Not Attempted

Correct Answer : Rs. 13,200

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

[1 Marks]

- (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

Correct Answer : 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 _____.

[2 Marks]

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

Correct Answer : Rs. 20000

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

[1 Marks]

- (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

Correct Answer : One cannot open more than one account with the same DP.

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

[3 Marks]

(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

Correct Answer : An ETF is like a Bank deposit.

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

[1 Marks]

(a) Financial Institutions

(b) Retail Investors

(c) Mutual Funds

(d) All of the above

(e) Not Attempted

Correct Answer : All of the above

30. NCDEX is _____.

[1 Marks]

(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

Correct Answer : National Commodities and Derivatives Exchange

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

[2 Marks]

(a) Depository

(b) Bank

(c) Stock Exchange

(d) Finance company

(e) Not Attempted

Correct Answer : Stock Exchange

32. What is an ISIN?

[1 Marks]

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

Correct Answer : 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 _____.

[2 Marks]

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

Correct Answer : Current Liabilities and Provisions

34. Equity shares have mostly _____ all other forms of investments in the long term.

[1 Marks]

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

Correct Answer : outperformed

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

[1 Marks]

- (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

Correct Answer : All of the above

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

[2 Marks]

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

Correct Answer : 9.2

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

[2 Marks]

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

Correct Answer : 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 _____.

[2 Marks]

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

Correct Answer : Rs. 25000

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

[2 Marks]

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

Correct Answer : Equity shareholders

40. 'Ask' means the _____.

[1 Marks]

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

Correct Answer : Seller's price

41. What is an Index?

[3 Marks]

- (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

Correct Answer : All of the above

42. Listing of securities means _____.

[1 Marks]

- (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

Correct Answer : admission of securities of an issuer to trading privileges on a stock exchange through a formal agreement

43. Nifty index is used in _____.

[1 Marks]

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

Correct Answer : All of the above

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

[1 Marks]

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

Correct Answer : Equity

45. Demutualisation of stock exchanges refer to _____.

[2 Marks]

- (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

Correct Answer : 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?

[1 Marks]

- (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

Correct Answer : 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.

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 _____.

[2 Marks]

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

Correct Answer : Rs. 7500

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

[1 Marks]

- (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

Correct Answer : the issuing company in consultancy with Merchant Bankers

49. What factor/s affect the interest rate?

[2 Marks]

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

Correct Answer : All of the above

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

[1 Marks]

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

Correct Answer : Highest Buy 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 _____.

[2 Marks]

(a) Rs. 14,750

(b) Rs. 14,500

(c) Rs. 12,600

(d) Rs. 14,520

(e) Not Attempted

Correct Answer : Rs. 14,520

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

[2 Marks]

(a) can't say

(b) the same

(c) more

(d) less

(e) Not Attempted

Correct Answer : more

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

[3 Marks]

(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

Correct Answer : None of the above

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

[2 Marks]

(a) 1 day

(b) Same day as the trade

(c) 2 days

(d) 3 days

(e) Not Attempted

Correct Answer : 2 days

55. Who are the participants in the Securities Market?

[1 Marks]

- (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

Correct Answer : All of the above

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

[1 Marks]

- (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

Correct Answer : 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?

[2 Marks]

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

Correct Answer : Rs. 14,400

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

[2 Marks]

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

Correct Answer : Rs.1,469

59. Stock Split leads to _____.

[1 Marks]

- (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

Correct Answer : All of the above

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

[2 Marks]

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

Correct Answer : Rs. 112.36
