Question Paper
Financial Markets (CFA550): January 2009

- **Answer all 73 questions.**
- **Marks are indicated against each question.**

Total Marks : 100

<Answer>

1. Which of the following statements is/are **true** with respect to various intermediaries operating in financial markets?

   I. Custodians are intermediaries in the credit market.
   II. The cost of lending and borrowing decreases due to the presence of intermediaries.
   III. Primary dealers aid the RBI in conducting open market operations.

   (a) Only (I) above
   (b) Only (III) above
   (c) Both (I) and (II) above
   (d) Both (II) and (III) above
   (e) All (I), (II) and (III) above. **(1 mark)**

<Answer>

2. An economy has no external borrowings in its system. Its financial liabilities are equal to financial assets. If its financial liabilities include stock issued to the outsiders, its real assets are financed by

   (a) Borrowings
   (b) Financial assets
   (c) Financial liabilities
   (d) Capital
   (e) Savings. **(1 mark)**

<Answer>

3. The 91-days treasury bills of Rs.100 each are currently selling in the market at Rs.98.13. These bills are said to have been sold at annual discount of approximately

   (a) 8.50%
   (b) 8.25%
   (c) 8.00%
   (d) 7.64%
   (e) 7.50%. **(1 mark)**

<Answer>

4. Which of the following is **not** the objective of a borrower in the capital market?

   (a) Minimum lead time for acquiring the money
   (b) Access to funds up to the desired period of time
   (c) Adequate coverage for the various risk exposures
   (d) Minimum terms and conditions attached with the usage of funds
   (e) Low rate of interest. **(1 mark)**

<Answer>

5. Which of the following statements is/are **not true** with respect to various risks associated with money market investments?

   I. The level of exposure of money market instruments to inflation risk is usually more.
   II. The risk that arises at the time of redemption of money market investments due to the decline in interest rates is reinvestment risk.
   III. Market risk associated with money market investment can be minimized by enhancing liquidity.

   (a) Only (I) above
   (b) Only (II) above
   (c) Only (III) above
   (d) Both (I) and (III) above
   (e) Both (II) and (III) above. **(1 mark)**

<Answer>

6. Mr. Nimit, working with an organization is eligible to receive pension under defined benefit plan. In this regard, which of the following statements is/are **not true**?

I. He will have an option to receive pension amount even before his retirement.
II. The amount of pension to be received is directly related to the contribution made by him.
III. If the pension fund loses money in investments or earns lower than benchmark return, he bears the loss.

(a) Only (I) above
(b) Both (I) and (II) above
(c) Both (I) and (III) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above. **(1 mark)**

<Answer>

7. Which of the following strategies of hedge funds is an example of 'Hard-to-value' strategy?

(a) Equity market neutral
(b) Equity hedge
(c) Relative value arbitrage
(d) Merger arbitrage
(e) Distressed securities. **(1 mark)**

<Answer>

8. Mr. Sudhir buys a 10-year annuity deposit certificate for Rs.35,000, on which he is entitled to receive annuity of Rs.6,194. The return to be realized by Mr. Sudhir is approximately

(a) 13.59%
(b) 13.25%
(c) 12.75%
(d) 12.00%
(e) 11.50%. **(1 mark)**

<Answer>

9. ABN Ltd. issues a Commercial Paper (CP) at an effective rate of 11% p.a. for 80 days at a face value of Rs.100. The issue price of CP is approximately

(a) Rs.97.5913
(b) Rs.97.6458
(c) Rs.98.1524
(d) Rs.98.7567
(e) Rs.99.2574. **(1 mark)**

<Answer>

10. Which of the following statements is/are **not true** with respect to treasury bills?

I. Capital depreciation in these bills is very high.
II. Individuals are not allowed to participate in the auctions on non competitive bidding basis.
III. These bills can be issued in the form of promissory notes.

(a) Only (II) above
(b) Only (III) above
(c) Both (I) and (II) above
(d) Both (I) and (III) above
(e) Both (II) and (III) above. **(1 mark)**

<Answer>

11. Which of the following statements is/are **true** with respect to Participation Certificates (PCs)?

I. The participation by banks and financial institutions under PCs is completely on risk sharing basis.
II. They provide short-term funds.
III. The rate at which PCs can be issued is negotiable.

(a) Only (I) above
(b) Only (III) above
(c) Both (I) and (II) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above. **(1 mark)**

<Answer>

12. Banks in an economy have been maintaining Statutory Liquidity Ratio (SLR) in excess of statutory requirements. In such a scenario, which of the following is/are most likely to be **true**?

I. An increase in SLR by the RBI will not have a significant impact on the liquidity.
II. With the increase in SLR by the RBI, prices of the securities will significantly increase thereby reducing the yields on the same.
III. Excess SLR investments will enable the banks to present better capital adequacy ratios.

(a) Only (I) above
(b) Only (II) above
(c) Both (I) and (II) above
(d) Both (I) and (III) above
(e) Both (II) and (III) above. **(1 mark)**

<Answer>

13. Which of the following statements is/are **not true** with respect to repo rates?

I. If the current yield is lower than repo rate, capital gain will occur due to adjustment in repurchase price.
II. If both repo rate and coupon interest rate are equal, the repurchase price will be equal to the selling price of security.
III. The required repo rate is found by calculating the sale and repurchase prices after adjusting the accrued rate of interest.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above. **(1 mark)**

<Answer>

14. A Certificate of Deposit (CD) issued by large savings and loan associations which can be covered under the FDIC is called

(a) Installment CD
(b) Thrift CD
(c) Jumbo CD
(d) Declining rate CD
(e) Rising rate CD. **(1 mark)**

<Answer>

15. On November 03, 2008, RBI issued a tender notification for 91-day T-bills for Rs.1,500 crore. One of the successful bidders in this auction is A. A has fulfilled 25% of total requirement. A has given three different bids, out of which middle and lowest bids are Rs.98.65 and Rs.98.50 respectively. Amounts approved at his highest, middle and lowest bids are Rs.120 crore, Rs.180 crore and Rs.75 crore respectively. If the weighted average yield of A is 5.49%, the highest bid made by A is approximately

(a) Rs.98.99
(b) Rs.98.94
(c) Rs.98.90
(d) Rs.98.80
(e) Rs.98.74. **(3marks)**

<Answer>

16. Mr. Mukesh, an importer, is expecting payables in dollar within one month from now. He has entered into one month forward agreement with bank with the base rate at Rs.46.20, one month premium on dollar is 20 paise and the bank wishes to charge 15 basis points as margin. The forward TT selling rate will approximately be

(a) Rs.46.62
(b) Rs.46.55
(c) Rs.46.47
(d) Rs.46.30
(e) Rs.46.20. **(2marks)**

<Answer>

17. Standard Bank booked an one month forward contract for buying US$5,00,000 from an Indian exporter at Rs.46.32 covering a TT remittance against a bill for collection and covered itself in the local interbank market at Rs.46.42. However, on maturity date, the client requested the bank to extend the contract by one month.

The on-going market rates for US dollar on the day of request are as under:

Rs./$ spot:	46.44/52
One month forward	05/06
Two month forward	07/09
Three month forward	10/15

If bank requires an exchange margin of 0.05% for TT buying and 0.07% for TT selling rate, the extension charges paid and fresh contract rate booked by the client are respectively

(a) Rs.1,00,000 and Rs.46.4668
(b) Rs.1,00,000 and Rs.46.4900
(c) Rs.1,11,630 and Rs.46.5567
(d) Rs.1,16,300 and Rs.46.4900
(e) Rs.1,16,300 and Rs.46.4668. **(3marks)**

<Answer>

18. A trader in derivatives market, has observed that the price of 6 month gold futures price is Rs.12,000 per 10 grams and the spot price is Rs.13,710 per 10 grams. The annualized borrowing rate is 12.5% and storage cost is negligible. In this regard, which of the following statements is/are **true**?

I. The basis will be negative and it will be referred to as contango.
II. The futures price is determined by some more factors in addition to cost-of-carrying.
III. The convenience yield as a percentage of spot price is 13.10% p.a.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above. **(2marks)**

<Answer>

19. The aggregate paid up capital and free reserves of a company are Rs.500 crore. For the purpose of meeting its short-term requirement of funds, the company may accept public deposit for less than 3 months to the maximum of

(a) Nil
(b) Rs.25 crore
(c) Rs.50 crore
(d) Rs.75 crore
(e) Rs.100 crore. **(1 mark)**

<Answer>

20. Which of the following risks is **not** covered by Export Credit and Guarantee Corporation (ECGC)?

(a) Insolvency of the buyer
(b) Cancellation of valid import license or new import restrictions
(c) War, civil war, revolution or civil disturbances in the buyer's country
(d) Default or insolvency of any agent of the exporter or of the collecting bank
(e) Loss occurring outside India due to any other reasons that are not insured. **(1 mark)**

<Answer>

21. Which of the following are the financial guarantees usually issued by insurance companies?

I. Guarantees extended to non-financial contracts.
II. Guarantees on behalf of the hire purchase companies to banks and other institutions.
III. Guarantees to cover deferred payments to suppliers of equipments and to bankers.
IV. Guarantees to cover short-term loans from banks.

(a) Both (I) and (II) above
(b) Both (II) and (III) above
(c) (I), (II) and (III) above
(d) (II), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above. **(1 mark)**

<Answer>

22. The role of the Depository in the capital market is

(a) To provide corporate advisory services
(b) To perform the role of market maker in Government securities
(c) To subscribe to unsubscribed portion of the securities
(d) To ensure exchange in currencies
(e) To hold the securities in electronic form on behalf of the investors. **(1 mark)**

<Answer>

23. Which of the following statements is **not true** with respect to uses of stock market indices?

(a) The growth in the secondary market can be measured through the movement of indices
(b) The return on index is helpful in conducting the portfolio risk return evaluation
(c) Indices can be calculated industry-wise to know their trend patterns
(d) Stock market indices are useful indicators of a country's economic health
(e) Stock indices are useful for measuring the purchasing power of the people. **(1 mark)**

<Answer>

24. International Organization of Securities Commission (IOSCO) functions through the committee system. Which of the following committees looks after the regulation of market intermediaries?

(a) President's committee
(b) Executive committee
(c) Technical committee
(d) Emerging markets committee
(e) Self-Regulatory Organization consultative committee. **(1 mark)**

<Answer>

25. Power limited is planning to issue 12% debentures with warrants attached to it, and warrants can be exercised, only if the debenture is surrendered, such warrants are referred to as

(a) Callable warrants
(b) Detachable warrants
(c) Puttable warrants
(d) Naked warrants
(e) Wedding warrants. **(1 mark)**

<Answer>

26. Forward Markets Commission (FMC) is a regulatory authority of commodity markets. Which of the following is **not** the function of FMC?

(a) To advice the SEBI in respect of the recognition or the withdrawal of recognition from any association
(b) To keep forward markets under observation and to take such action in relation to them, as it may consider necessary
(c) To collect and whenever the commission thinks it necessary, to publish information regarding the trading conditions
(d) To make recommendations generally with a view to improving the organization and working of forward markets
(e) To undertake the inspection of the accounts and other documents of any recognized association or registered association or any member of such association whenever it considers necessary. **(1 mark)**

<Answer>

27. Which of the following Floating Rate Notes (FRNs) are also known as 'Unrated FRNs'?

(a) Mini-Max FRNs
(b) Capped FRNs
(c) Perpetual FRNs
(d) Structured FRNs
(e) Deleveraged FRNs. **(1 mark)**

<Answer>

28. Construction of a shopping complex is proposed to be financed by issuing bonds and equity shares in the proportion of 6:4. The details of the proposed issues are as follows:

I. The issue of bonds bearing a coupon rate of 12% p.a. and maturing in 10 years. The interest will be compounded semi-annually. To redeem the bonds on maturity, a sinking fund is established.
II. The issue of equity on which the investors require a return of 16%.

If the expected net operating income from the property is Rs.100 lakh, the market value of property is approximately

(a) Rs.577.37 lakh
(b) Rs.666.67 lakh
(c) Rs.714.29 lakh
(d) Rs.769.23 lakh
(e) Rs.833.33 lakh. **(3marks)**

<Answer>

29. Omega Exports based in Mumbai, a manufacturer of textiles, received an export order worth Euro 2,00,000 from Germany on October 01, 2008. The company requested its banker to book a forward contract for Euro 2,00,000 with an option to deliver in December 2008. (Assume that the dollar is delivered on the first day of the option period.)

On October 01, 2008, the following rates prevailed in the inter bank market for Euro in Mumbai:

Rs./€	Spot	65.87/65.94
	Forward 1 month	16/14 paise
	2 month	20/18 paise
	3 month	22/19 paise

While quoting the rates, bank usually collects the exchange margin of 0.10%. The forward rate quoted by the bank to Omega Exports on October 01, 2008 was

(a) Rs.65.1657/Euro
(b) Rs.65.3589/Euro
(c) Rs.65.4563/Euro
(d) Rs.65.5843/Euro
(e) Rs.65.9867/Euro. **(2marks)**

<Answer>

30. Which of the following is/are the factors responsible for the high volatility in the call market?

I. Large borrowings by banks to meet the CRR requirements.
II. Usage of call market by banks as a source of funds to meet structural disequilibria in their sources and uses of funds.
III. The withdrawals of funds to meet business requirements by institutional lenders and payment of advance tax by the corporate sector.

(a) Only (III) above
(b) Both (I) and (II) above
(c) Both (I) and (III) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above. **(1 mark)**

<Answer>

31. The share of Shree Renuka Sugars Ltd. is currently trading at Rs.110. Ms. Shikha, a trader in derivative market, has taken the following position on the stock of Shree Renuka Sugars Ltd.

I. Purchased one call option with a premium of Rs.3.90 at an exercise price of Rs.120, expiring in January 2009.
II. Written one put option with a premium of Rs.3.50 at an exercise price of Rs.100, expiring in January 2009.

If on expiration, the price of Shree Renuka Sugars Ltd. turns out to be Rs.125, the profit/loss of Ms. Shikha is

(a) Rs.24.6 (Profit)
(b) Rs.24.6 (Loss)
(c) Rs.20.6 (Profit)
(d) Rs.4.6 (Profit)
(e) Rs.4.6 (Loss). **(2marks)**

32. Mr. Vipin wants to buy 200 shares of Suzlon Energy, at a market price of Rs.198 each. But he did not have sufficient bank balance. So, he approached a broker who will invest half money on his behalf, at an interest rate of 15% p.a. If the stock price falls to Rs.170, the maintenance margin of Mr. Vipin will be <Answer>

(a) 56.57%
(b) 48.57%
(c) 41.76%
(d) 35.86%
(e) 30.67%. **(2marks)**

33. The initial current market price of the stock is Rs.33 and warrant price is Rs.7. It is expected that after one month there will be an increase in stock price by 12.12% and warrant price by 28.57%. The stock-warrant ratio after increase in prices will be <Answer>

(a) 5.11
(b) 4.71
(c) 4.11
(d) 3.51
(e) 2.71. **(1 mark)**

34. Which of the following companies come under Non-Banking Non-Finance companies? <Answer>

I. An equipment leasing company.
II. A hire purchase company.
III. Companies engaged in the services sector.
IV. All manufacturing and trading companies.

(a) Both (I) and (II) above
(b) Both (III) and (IV) above
(c) (I), (II) and (III) above
(d) (I), (III) and (IV) above
(e) (II), (III) and (IV) above. **(1 mark)**

35. Moon Ltd. has offered a bond with a face value of Rs.5,000 and a maturity of 3 years. For the first 2 years from the date of allotment, the bond holder receives Rs.1,750 annually, which consist of both interest and principal. The amount would be first adjusted towards the interest portion and the balance towards principal. In the third year, remaining principal along with interest will be paid to the bond holder. The interest would be computed at a mark up of 3% over the yield on 364-day treasury bill. According to estimates, the yield on 364-day T-bills is expected to be as follows: <Answer>

Year \ Probability	0.3	0.5	0.2
1	6.75	7.25	7.00
2	7.50	7.85	7.45
3	9.50	9.40	9.70

However, the minimum interest rate is 10.5% and the maximum interest is 12% during the entire tenure of the bond. The amount of principal and interest to be paid during the third year will be respectively

(a) Rs.3,775.00 and Rs.402.60
(b) Rs.3,775.00 and Rs.303.21
(c) Rs.2,427.60 and Rs.291.31
(d) Rs.2,427.60 and Rs.303.21
(e) Rs.1,225.00 and Rs.291.31. **(3marks)**

36. If the convertible bond is redeemable by the issuer only for cash, it is called <Answer>

(a) Protective put
(b) Soft put
(c) Subordinated put
(d) Convertible put
(e) Hard put. **(1 mark)**

<Answer>

37. Naveen Financiers Ltd. discounts the bills of its clients at the following rates.

Clean bill – 25% p.a.
Usance bill – 23% p.a.

Assuming 360 days in a year, the effective annual rate of interest implied by a clean bill with a usance period of 60 days is

(a) 29.11%
(b) 30.12%
(c) 31.16%
(d) 31.96%
(e) 32.25%. **(2marks)**

<Answer>

38. The implied price of the non-callable bond is Rs.120. Duration of a non-callable bond is 5 years and delta of the call option is 0.745. If option-adjusted duration is 1.33, the observed price of a callable bond is

(a) Rs.105.45
(b) Rs.108.95
(c) Rs.112.75
(d) Rs.115.04
(e) Rs.120.50. **(1 mark)**

<Answer>

39. Which of the following statements is/are **not true** with respect to Option Adjusted Duration (OAD)?

I. OAD is dependent on the price of the call option.
II. The delta value of a call option lies between –1 and 1.
III. The OAD of a callable bond is more than the duration of a non-callable bond.

(a) Only (I) above
(b) Both (I) and (II) above
(c) Both (I) and (III) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above. **(1 mark)**

<Answer>

40. Mr. Aditya has given an order to his broker to buy the security at the best current price, as he is unaware of the price at which the stock is traded. The type of order given by Mr. Aditya to his broker is

(a) Day order
(b) Open order
(c) Limit order
(d) Discretionary order
(e) Market order. **(1 mark)**

<Answer>

41. White clouds Ltd. issued a 5-year floating rate notes (FRNs). During the tenure of the bond, the minimum interest rate is fixed at 9.5% p.a. and maximum at 13.50% p.a. This feature of FRNs is known as

(a) Call feature
(b) Put feature
(c) Collar feature
(d) Floor feature
(e) Cap feature. **(1 mark)**

<Answer>

42. Wealth Bank issued 500 Commercial Papers for a period of 5 months having the face value of Rs.5,00,000 at Rs.4,98,000 each. The stamp duty payable on such issue is

(a) Rs.2,50,000 by the investors
(b) Rs.2,50,000 by the issuer
(c) Rs.3,75,000 by the investors
(d) Rs.3,75,000 by the issuer
(e) Rs.5,00,000 by the investors. **(1 mark)**

<Answer>

43. The minimum amount of investment in government securities for a single investor is

(a) Rs. 1,000
(b) Rs. 5,000
(c) Rs.10,000
(d) Rs.15,000
(e) Rs.20,000. **(1 mark)**

<Answer>

44. Karnataka Bank has agreed to sell security to RBI with an undertaking to buyback the same at a predetermined price at a future date. From RBI's point of view, this transaction is known as

(a) Term loan
(b) Repo agreement
(c) Financial guarantee
(d) Reverse repo agreement
(e) Bill financing. **(1 mark)**

<Answer>

45. On November 30, 2008, Standard Bank proposes to borrow an amount of Rs.150 crore from Axa Bank for a period of 10 days. The security for this transaction is 12% GOI Securities, which have a face value of Rs.150 crore trading at Rs.155 crore and maturing on December 30, 2012. The interest payment on these securities is due on July 30 and January 30 every year. If the buy back price of the security is Rs.155.1623 crore, the annual interest rate for repo transaction is

(a) 16%
(b) 15%
(c) 14%
(d) 13%
(e) 12%. **(3marks)**

<Answer>

46. The minimum tenure for which public deposits can usually be accepted or renewed is

(a) 24 months
(b) 18 months
(c) 12 months
(d) 10 months
(e) 6 months. **(1 mark)**

<Answer>

47. Earnest Money Deposit (EMD) is

(a) The amount which banks undertake to pay for the cost of goods bought by their client
(b) The amount which banks undertake to pay as a guarantee, if the contractor is awarded the work
(c) The amount which contractor pays for the cost of goods bought
(d) The amount which contractor deposits with a government as legal charges
(e) The amount which the contractor deposits to bid for a tender. **(1 mark)**

<Answer>

48. The commitments for aggregative bidding for Auction of T-Bills of 4 Primary Dealers are as follows:

(Rs. in crore)

Particulars	TSS Ltd.	GHN Ltd.	RSA Ltd.	SPG Ltd.
Auction T - Bills	700	800	400	600
Tendered	800	850	550	400
Accepted	400	300	200	100

Which of the PDs did not adhere to the commitment on aggressive bidding and also did not achieve the required amount of successful bids?

(a) GHN Ltd.
(b) SPG Ltd.
(c) GHN Ltd. and SPG Ltd.
(d) TSS Ltd. and RSA Ltd.
(e) GHN Ltd. and TSS Ltd. **(2marks)**

49. Which of the following statements is/are **true** with respect to various principles of Real Asset Appraisal? <Answer>

I. According to the Principle of Substitution, price is a function of demand and supply and the value of property fluctuates with price.
II. According to the Principle of Change, a rational owner will try to gain the maximum out of the resources he has.
III. According to the Principle of Marginal Productivity, the value of any factor of production or component of a property can add to or lower the value of the asset.
IV. According to the principle of highest and best use, a rational buyer will not spend more than the amount it is going to cost him if he buys another similar property with same utility.

(a) Only (I) above
(b) Only (III) above
(c) Both (I) and (IV) above
(d) Both (II) and (III) above
(e) (I), (II) and (IV) above. **(1 mark)**

50. An option is said to be In-the-money put option, <Answer>

I. If the exercise price is below the current market price of the underlying security.
II. If it has positive value when buyer exercises it now.
III. If it has an exercise price above the current market price of the underlying security.
IV. If the buyer incurs a loss, if he exercises it now.

(a) Only (I) above
(b) Only (III) above
(c) Only (IV) above
(d) Both (I) and (IV) above
(e) Both (II) and (III) above. **(1 mark)**

51. Which of the following is/are the example(s) of hedging? <Answer>

I. In the month of April, a farmer of wheat crop which is to be harvested in July, sells a 3-month futures contract with the expectation of fall in the price of wheat.
II. Mr. Sen buys 2-month futures contract on corn, with the expectation that the price of corn will increase due to scarcity.
III. Mr. Gupta buys 100 shares of PNB at NSE at the price of Rs.523 each and simultaneously sells the same at BSE at the price of Rs.525 each.
IV. Mr. Mukherjee buys 2-month put options on the stock of Jindal Steels, with the expectation of decrease in price of the stock.

(a) Only (I) above
(b) Both (I) and (II) above
(c) Both (II) and (IV) above
(d) Both (III) and (IV) above
(e) (I), (II) and (III) above. **(1 mark)**

52. Mr. Sahil, an importer who is obliged to pay for his imports bought spot US$1 million from SBI, Mumbai, on August 28, 2008, Thursday. The settlement date for the above spot transaction is <Answer>

(a) August 28
(b) August 29
(c) August 30
(d) August 31
(e) September 1. **(1 mark)**

<Answer>

53. The following quotes are observed in Mumbai forex market:

Spot Rs./$: 45.80/45.90
3-m Rs./$: 46.05/46.13

The rupee is trading against dollar at a

(a) Premium of 2.08%
(b) Discount of 2.08%
(c) Premium of 2.15%
(d) Discount of 2.15%
(e) Premium of 2.19%. **(2marks)**

<Answer>

54. The following is the information pertaining to the portfolio of Dolex Mutual Fund:

Stock	No. of shares	Current Market Price (Rs.)
L&T	1,10,000	2,685.45
Cipla	3,12,000	259.95
Wipro	4,50,000	523.10
HDFC	3,90,000	883.30
Tata Steel	2,99,000	502.75

The number of units outstanding is 10,75,73,000. If the NAV of each unit is Rs.10.26 and the fund has not borrowed any funds, the accrued management fee with the portfolio manager currently is

(a) Rs.25,67,450
(b) Rs.28,56,098
(c) Rs.30,09,170
(d) Rs.32,18,560
(e) Rs.35,06,345. **(2marks)**

<Answer>

55. The public offer price for each unit of TF Mutual Funds is Rs.15.97. If the sales charge on the Net Asset Value (NAV) is 3%, the NAV of each unit is approximately

(a) Rs.16.46
(b) Rs.15.97
(c) Rs.15.49
(d) Rs.14.95
(e) Rs.14.17. **(1 mark)**

<Answer>

56. According to Mr. Roy, who is involved in the valuation of house property, the market value of a house property situated in Delhi is Rs.12,00,000 under built-up method. As per his opinion, the risk compensation required by the investor for illiquid nature of the property is 3.10%. Recapture premium required by the investor is 4.90%. If net operating income from the above house property and risk premium are Rs.2,40,000 and 4% respectively, the 91-day T-bill are trading approximately at a price of

(a) Rs.96.19
(b) Rs.96.85
(c) Rs.97.25
(d) Rs.97.55
(e) Rs.98.04. **(3marks)**

<Answer>

57. Mr. Siva, a portfolio manager of Fund of Hedge Funds, invests the corpus of his fund in different funds of Real Estate sector of India, as he thinks that India is one of the emerging markets and Real Estate in India is going to produce best returns. The investment style of Mr. Siva can be considered as

(a) Conservative style
(b) Diversified style
(c) Market Defensive style
(d) Strategic style
(e) Aggressive style. **(1 mark)**

<Answer>

58. A convertible bond issued by Jia Industries has par value of Rs.1000 with a coupon rate of 10% and maturity of 5 years. The shares of the company are trading at Rs.20 each. The dividend paid by the company on the shares is Rs.1.9 per share. If the pay back period is 4.5 years and each bond of the company is trading at Rs.872, the conversion rate is approximately

(a) 37
(b) 40
(c) 42
(d) 45
(e) 47. **(2marks)**

<Answer>

59. Fei Ltd issued 12% bonds, redeemable after 10 years at par. If the required return of investors is 14% and par value is Rs.100 per bond, the intrinsic value of each bond is

(a) Rs.95.56
(b) Rs.91.75
(c) Rs.89.57
(d) Rs.86.98
(e) Rs.83.67. **(1 mark)**

<Answer>

60. Which of the following statements is **true** with respect to futures contracts?

(a) The terms of futures contracts are structured to suit both the contracting parties
(b) The performance of futures contracts depends on the worth of the counterparty
(c) Futures contract is an over-the-counter product
(d) Futures contracts can be easily closed
(e) There is no compulsion for traders to deposit initial margin. **(1 mark)**

<Answer>

61. The shares of Tata Steel Ltd. are quoted at Rs.479 each. Put options on the stock with strike price of Rs.460 are quoting at a price of Rs.6.20. The intrinsic value and time value of put options are respectively

(a) Zero and Rs.12.80
(b) Zero and Rs.6.20
(c) Rs.12.80 and Zero
(d) Rs.19 and Rs.12.80
(e) Rs.19 and Rs.6.20. **(2marks)**

<Answer>

62. Mr. Malhotra wants to buy 3500 shares of Stock HDD. According to the following order book, the impact cost for the buyer is approximately

Buy		Sell	
Quantity	Price (Rs.)	Quantity	Price (Rs.)
3000	106	3000	107
4000	105	3500	108
3000	104	3000	109

(a) 1.16%
(b) 0.95%
(c) 0.60%
(d) 0.55%
(e) 0.50%. **(2marks)**

<Answer>

63. Which of the following statements is/are **not true** with respect to methods of averaging?

I. An index based on the arithmetic mean will increase more slowly and decrease more rapidly than an index based on the geometric mean.
II. Geometric mean has an upward bias, while arithmetic mean has a downward bias.
III. The index based on geometric mean will outperform most of the components in the long run.

(a) Only (I) above
(b) Only (II) above
(c) Both (I) and (II) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above. **(1 mark)**

<Answer>

64. Which of the following characteristics is **not true** with regard to Z group of shares at BSE?

(a) Non-compliance with listing norms
(b) Non-submission of quarterly results and annual reports
(c) Poor profit performance and low trading volumes
(d) Failure to redress investor complaints
(e) Non-fixation of book closure. **(1 mark)**

<Answer>

65. Caption Ltd. has accepted the public deposits of Rs.1,75,43,000 payable at the end of 18 months. It has the aggregate paid up capital and free reserves of Rs.10,00,00,000. The maximum amount of brokerage payable for soliciting the above deposits is

(a) Rs.1,75,430
(b) Rs.2,63,145
(c) Rs.3,13,300
(d) Rs.3,50,860
(e) Rs.3,96,750. **(2marks)**

<Answer>

66. The fund raised by Moon Mutual Fund under a scheme is Rs.400 crore. Its maximum initial issue expenses with respect to that scheme can be

(a) Rs.24 crore
(b) Rs.20 crore
(c) Rs.16 crore
(d) Rs.12 crore
(e) Rs. 8 crore. **(1 mark)**

<Answer>

67. Mr. Nath purchases GOI 2010 securities at Rs.105 each. If the face value of the securities is Rs.100 and current yield to Mr. Nath is 12%, the coupon rate on the securities is

(a) 10.75%
(b) 11.67%
(c) 12.00%
(d) 12.60%
(e) 13.50%. **(1 mark)**

<Answer>

68. During a year, the market value of a company increases due to the issue of right shares. The existing base year average is Rs.853.89 lakhs and new base year average is Rs.910.10 lakhs. If the market value of all the shares included in the index before the rights issue is Rs.2,500 lakhs, the increase in value of the company due to rights issue is

(a) Rs.175.87 Lakhs
(b) Rs.169.75 Lakhs
(c) Rs.164.57 Lakhs
(d) Rs.161.98 Lakhs
(e) Rs.158.90 Lakhs. **(2marks)**

<Answer>

69. JLL Ltd. is a primary dealer dealing in Treasury bills. It has been maintaining the turnover ratio according to the norms i.e., 10 times. If, total purchases and total sales of T-bills during the year are Rs.600 crore and Rs.575 crore respectively, the average of month end stock during the year will be

(a) Rs.175.50 crore
(b) Rs.164.90 crore
(c) Rs.124.80 crore
(d) Rs.117.50 crore
(e) Rs.105.40 crore. **(1 mark)**

<Answer>

70. At the beginning of a trading day, Mr. Mathur is in a long position in the futures market and his collateral is exactly at the required margin. If the closing futures price is above the opening price, at the end of the day

(a) He will be subject to a margin call
(b) His account will be marked to market and losses will be transferred out
(c) His account will be marked to market and gains will be transferred in
(d) His losses will be offset by gains made by investors holding short positions
(e) His losses will be carried forward to the next day. **(1 mark)**

<Answer>

71. Which of the following statements is **false** with respect to the insurance of deposits?

(a) The deposit will have a cover for actual amount of deposit subject to a maximum of Rs.1,00,000 for each depositor irrespective of number and amount of deposits one has with a bank
(b) The premium payable for the insurance of the deposits is 2.5 paisa per half year for every 100 rupees
(c) All the deposits of a depositor at different branches of the same bank are clubbed together
(d) When deposits are held in the name of a person individually and the same depositor holds a deposit jointly with another person, they are treated as two different deposits
(e) The insurance premium is payable at the end of March and October every year. **(1 mark)**

<Answer>

72. Mr. Rohit bought a 10 year bond of face value Rs.1000 carrying an annual coupon rate of 10%. The capital gain/loss to Mr. Rohit, if the interest rates go up from 11% to 12% is

(a) Rs.54.10 (Profit)
(b) Rs.54.10 (Loss)
(c) Rs.64.20 (Profit)
(d) Rs.64.20 (Loss)
(e) Rs.77.79 (Profit). **(2marks)**

<Answer>

73. The average daily price change in tea futures contract is Rs.3.50 per kg and the standard deviation of the price changes is Re.0.75. If the size of the contract is 1,000 kg, the initial margin required is

(a) Rs.5,750
(b) Rs.6,450
(c) Rs.7,550
(d) Rs.7,960
(e) Rs.8.500. **(1 mark)**

END OF QUESTION PAPER

Suggested Answers
Financial Markets (CFA550): January 2009

ANSWER **REASON**

1. B Statement I is not true because custodians are the intermediaries in the capital market and not in the credit market. Statement II is not true because intermediaries though ease the funds flow process taking place in the financial markets, increases the costs of lending and borrowing in the market. To prevent any misappropriation of the lender's funds and to reduce the risks of the investors, a well regulated environment has to be developed. Primary dealers aid the RBI in conducting open market operations. Hence statement III is true and answer is (b). ≤

2. E Financial assets play a key role in developing the financial markets in particular and the financial system in general. Their importance to the system can be understood while distinguishing these assets from the real assets. All assets are financed by liabilities as the accounting concept advocates. While the assets can be either financial or real assets, the liabilities will be either in the form of savings or financial liabilities. Financial assets represent the obligations on the part of the issuer of such financial asset. Hence, all financial assets will be equal to the financial liabilities. The funding of assets will be done either by using savings or by borrowing. Since borrowings represent financial liabilities, the accounting equation can be altered as follows: ≤

Assets = Liabilities + Capital

Financial Assets + Real Assets = Financial Liabilities + Savings

Since financial assets equal to financial liabilities, the real assets will be financed by savings. This relationship has the following implicit assumptions:

There are no external borrowings in the system.

Financial liabilities include stock issued to the outsiders.

3. E Discount on T-bills can be calculated as ≤

$$\frac{100 - 98.13}{100} \times \frac{365}{91} \times 100 = 7.50\% \text{ per annum}$$

4. C The borrowers generally prefer to have the following features while entering into a deal: ≤

- Low rates of interest
- Minimum lead time when money is required.
- Access to funds up to the desired period of time.
- Minimum terms and conditions attached with the usage of funds.
- Minimum monitoring and interference from the lender.
- Freedom to set the repayment schedule according to the convenience of the borrower.

Adequate coverage for the various risk exposures is the objective of lender of funds.

5. A Considering the short term nature of money market instruments, their level of exposure to inflation risk can be minimal when compared with other long term instruments. The risk that arises due to the decline in interest rates at the time of redemption of money market investments is reinvestment risk. Market risk arises due to the fluctuations in the rates of the instruments, and is of prime concern in money market investments. Due to the large quantum of funds involved in the money market deals, and the speed with which these transactions are executed, the value of the assets is exposed to fluctuations. Market risk associated with money market investment can be minimized by enhancing liquidity since easy exit can help curb the capital loss. Therefore, statement (I) is not true and correct answer is option (a). ≤

6. E Defined Benefit Plans, usually involve a pension trust where there is a promise to pay a definite level of pension, not directly related to the contributions made to the fund by the employees or by their employer on their behalf. In defined contribution plan, If the pension or provident fund loses money in investments or earns lower than benchmark return, the employee bears the loss or opportunity loss. ≤

Therefore all statements are not true and correct answer is option e.

7. E A distressed securities is 'Hard-to-value' strategy. ≤

8. D ≤

$$6194 = \frac{35000}{PVIFA_{(r\%,10)}}$$

$$PVIFA_{(r\%,10)} = 5.6506$$

According to PVIFA table, for this value r = 12%

9. B ≤

$$P = \frac{F}{1 + \dfrac{(I \text{ X N})}{100 \text{ X } 365}} = \frac{100}{1 + \dfrac{(11 \text{ X } 80)}{100 \text{ X } 365}} = 97.6458$$

10. C Of the given statements only III is true. Statement I is not correct since there is negligible or no capital depreciation in treasury bills and Statement II is not correct since only eligible provident funds, State governments and Nepal Rastra Bank are allowed to participate in non-competitive bidding and all the other investors including individuals are allowed to participate in competitive bidding. ≤

11. D To ease the liquidity, banks have the option to share their credit asset(s) with other banks by issuing participation certificates. With this participation approach, banks and FIs come together either on risk sharing or non-risk sharing basis. While providing short term funds PCs can also be used to reduce risk. The rate at which these PCs can be issued will be negotiable depending on the interest rate scenario. ≤

12. D When the maintain excess of SLR securities, an increase in SLR will not have a significant impact on the liquidity, prices and yields of the instruments. Likewise, when there is a decrease in the SLR, there might not be much effect on the liquidity, prices and yield of the instrument since banks tend to keep excess SLR securities. However, in the long run, there may be an increase in the liquidity. Excess SLR investments will enable the banks to present better capital adequacy ratios and also since the government securities are now market determined, the yields offered by them would be encouraging. Statements (I) and (III) are correct. Hence (d) is the correct answer. ≤

13. A Following statements are correct with respect to repo rates: ≤

- If the current yield is lower than repo rate capital loss will occur due to adjustment in repurchase price.
- Adjustment in price at the repurchase stage is not required if both repo rate and coupon interest rate are equal.
- The required rate is found by calculating the sale and repurchase prices after adjusting the accrued rate of interest.

Hence (a) is the correct answer.

14. B Thrift CDs are issued by large savings and loan associations. Usually, they are issued in denominations of $100,000 so that they can be covered under the FDIC. Hence (b) is the answer. ≤

15. E Total amount of auction = Rs.1500 crore [≤](#)

A's contribution = 1500 X 0.25 = Rs.375 crore

Weighted average yield = 5.49%

$$\text{Weighted average yield} = \left[\frac{\textit{Face value}}{\textit{Weighted}\ \text{Price}} - 1\right] \text{X} \frac{365}{\textit{Days}\ \text{to Maturity}}$$

$$0.0549 = \left[\frac{100}{\textit{Weighted}\ \text{Price}} - 1\right] \text{X} \frac{365}{91}$$

Weighted price = 98.65

Let the highest bid made by A be x

$$98.65 = (x \text{ X } \frac{120}{375} + 98.65 \text{ X } \frac{180}{375} + 98.50 \text{ X } \frac{75}{375})$$

X = 98.74

16. C [≤](#)

Base rate	46.20
Add: Premium	0.20
	46.40
Add: Margin @ 0.15%	0.0696
	46.4696 ≈ 46.47 (app.)

17. E The forward purchase contract will be cancelled at the TT selling rate for US dollar = Rs.46.52 [≤](#)

Add: Exchange margin at 0.07% (46.52 X 0.0007) = Rs. 0.0326

= Rs.46.5526

Dollar bought from customer under original contract at = Rs.46.3200

It is sold to him under the cancellation contract at = Rs.46.5526

Exchange difference per dollar payable by customer = Rs. 0.2326

Exchange difference for USD 5,00,000 is Rs.5,00,000 X 0.2326 = Rs.1,16,300

So Rs1,16,300 will be recovered as cancellation charges from the customer.

The bank will book a fresh forward purchase contract for the customer at the rate given below:

Spot rate for buying dollar in the interbank market = Rs.46.44

Add: One month premium = Rs. 0.05

= Rs.46.4900

Less: Exchange margin at 0.05% (46.49 X 0.0005) = - Rs.0.0232

Forward TT buying rate for dollar = Rs.46.4668

On extension Rs.1,16,300 will be recovered as cancellation charges from the customer and the fresh contract will be booked at Rs.46.4668.

18. B If the future prices are less than the cash price, the basis is positive. This condition prevails only if the future prices are determined by some other factors other than cost-of-carrying. When the futures prices are lower than the cash prices it is referred to as 'Backwardation'. [≤](#)

According to cost-of-carry relationship

$$F_{t,T} = C_t + (C_t \text{ X } S_{t,T} \times \frac{T - t}{365} + G_{t,T})$$

$$12000 = 13710 + (13710 \times 0.125 \times \frac{6}{12} - \text{convenience yield})$$

Convenience yield = Rs.2566.875

As a percentage of spot price = 18.72%.

Hence, statement (b) is true.

19. C A company, for the purpose of meeting its short-term requirements of funds, may accept or renew public deposits for less than three months, but such deposits should not exceed 10% of the aggregate of the paid up capital and free reserves. Therefore, company can accept public deposit to the maximum of Rs.50 crore. Hence (c) is the answer. ≤

20. D Default or insolvency of any agent of the exporter or of the collecting bank is not covered by ECGC. All other risks are covered by ECGC. Hence (d) is the answer. ≤

21. C Insurance companies issue generally four types of guarantees: ≤

- Guarantees extended to non-financial contracts.
- Insurance companies extend guarantee on behalf of hire purchase companies to banks and other institutions.
- Guarantees to cover deferred payments to supplier of equipments, to bankers (either to suppliers or buyers' bankers).
- To cover term loans from banks (long term loans only).

Therefore. Statements (I), (II) and (III) are true and correct answer is option c.

22. E Depositories are set up to hold securities in electronic form on behalf of the investor. The other services mentioned are not performed by the depositories. Market making in government securities is performed by primary dealers, corporate advisory services is generally done by merchant bankers, underwriters subscribe the unsubscribed portion of securities and exchange in foreign currencies is generally done by foreign exchange dealers. Hence (e) is true. ≤

23. E The security market indices are indicators of different things and are useful for different purposes. Following are the important uses of an index: ≤

- Security market indices are the basic tools to help and analyze the movements of prices of various stocks listed in stock exchanges and are useful indicators of a country's economic health.
- The return on the index, which is known as market return, is helpful in evaluating the portfolio risk-return analysis. According to the modern portfolio theory's capital asset pricing model, the return on stock depends on whether the stock's price follows prices in the market as a whole or not; the more closely the stock follows the market, the greater will be its expected return.
- Indices can be calculated industry-wise to know their trend pattern and also for comparative purposes across the industries and with the market indices.
- The growth in the secondary market can be measured through the movement of indices.

All the statements are the use of the security market indices, so correct answer is (e).

24. C The Technical committee consists looks after the regulation of market intermediaries. ≤

25. E Wedding warrants are attached to the host debentures and can be exercised only if the host debentures are surrendered. Hence alternative (e) is the answer. ≤

26. A The function of the AMC is to advise the central government in respect of the recognition or the withdrawal of recognition from any association or in respect of any other matter arising out of the administration of the forward contracts (Regulation) Act, 1952. Hence, statement (a) is false and correct answer. ≤

27. C Perpetual FRNs are also called irredeemable or unrated FRNs and are akin to a form of capital. ≤

28. A Amount contributed to the sinking fund (Half yearly) ≤

$$= \frac{i}{(1+i)^n - 1} = \frac{\frac{0.12}{2}}{\left(1+\frac{0.12}{2}\right)^{20} - 1} = \frac{0.06}{2.2071} = 0.0272$$

Interest rate on the bonds = 0.12

Total payments for a bond per half year = 0.0272 + (0.12/2) = 0.0872

Annual payment = $(1 + 0.0872)^2 - 1$ = 18.20%

Calculation of capitalization rate

Instruments	% Employed	Required rate (%)	Weighted rates (%)
(1)	(2)	(3)	(4) = (2) X (3)
Bonds	60	18.20	10.92
Equity	40	16	6.4
Total			17.32

Capitalization rate = 17.32% (app.)

Market Value of property = $\frac{100}{0.1732}$ = Rs.577.37 lakh.

29. D Euro is at discount against rupees. Since buying rate is to be considered, so bank will deduct maximum discount possible. ≤

Rs /€	Spot bid rate	65.87
	Deduct discount for 3 months	0.22
		65.65
	Less exchange margin at 0.10%	0.0657
	Forward buying rate for dollar	65.5843

Rate to be quoted for Euro = 65.5843.

30. E Factors responsible for the high volatility in the call market ≤

- Large borrowings by banks to meet the CRR requirements on certain dates cause a great demand for call rates. These rates usually go up during the first week when banks borrow mostly to meet CRR requirements and subside in the second week once the CRR requirements are met.
- Due to over-extension of loans in excess of their own resources, the banks depend on call market. They use the call market as a source of funds to meet structural disequilibria in their sources and uses of funds. No bank may continuously rely on call market for funding credit since it attracts adverse comments from the RBI. However, the market may experience the presence of a few at any point of time.
- The withdrawal of funds to meet business requirements by institutional lenders and payment of advance tax by the corporate sector leads to increase in call money rates in the market.
- The banks invest funds in government securities, units of UTI, public sector bonds in order to maximize the earnings from their funds management. But with no buyers in the market, these instruments tend to become illiquid which leads to liquidity crisis. Call money being highly liquid, banks use it to pool the funds from the call market, significantly pushing up the call rates.

Thus, liquidity crisis or illiquidity in the money markets also contributes to the volatility in call market.

31. D Calculation of net premium ≤

Premium paid on purchasing a call option = 3.90

Premium received on writing a put option = 3.50

Net premium paid = 3.9 – 3.5 = Re.0.40

On expiration spot price turns out to be Rs.125, the call option will be exercised but put option will not be exercised.

Profit on call option = 125 – 120 = Rs.5

Net profit = Rs.5 – Re.0.4 = Rs.4.6.

32. C Mr. Vipin wants to buy 200 shares of Suzlon Energy at a market price of Rs.198. This transaction requires Rs.39,600, but he invests 50% of the amount (i.e., Rs.19,800) and the broker puts in the other half on his behalf and buys 200 Suzlon Energy shares in his name. If the stock price falls to Rs.170, the loan from the broker is still Rs.19,800 but the investor's own account equity will fall to Rs.14,200 (19,800 – (198 -170)200). ≤

Now his maintenance margin equals 41.76% (Equity account/Market value of holding X 100 i.e., 14,200/34,000 X 100).

33. C Stock price after one month: 33*1.1212= Rs. 37 ≤

Warrant price after one month: 7*1.2857= Rs. 9

Stock warrant ratio =stock price/warrant price

= 37/9 = 4.11

Hence answer is (c).

34. B Non-Banking Non-Finance companies include all manufacturing companies, trading companies and companies engaged in the services sector. ≤

35. C The interest rate for each of the 3 year is ≤

Year	T-Bill yield	Mark up of 3%	Coupon for each year (%)
1	7.05	10.05	10.50
2	7.665	10.665	10.665
3	9.49	12.49	12

Year	Coupon (%)	Payment (Rs.)	Remaining principal (Rs.)	Interest (Rs.)	Principal (Rs.)
1	10.50	1,750	5,000	525	1225
2	10.665	1,750	3775	402.60	1347.40
3	12	2718.91	2427.6	291.31	2427.6

36. E If the convertible bond is redeemable by the issuer only for cash, then it is called a hard put. ≤

37. A ≤

Discount charge = $100 \text{ X } 0.25 \text{ X } \dfrac{60}{360}$ = Rs.4.17

For every Rs.100 worth of bills discounted the bimonthly interest rate

= $\dfrac{4.17}{100 - 4.17}$ = 4.35%

Effective rate = $(1.0435)^6 - 1$ = 29.11%

38. D ≤

Option-adjusted duration = $\dfrac{Price_{NCB}}{Price_{CB}} \text{ X Dur}_{\text{NCB}}(1 - Delta)$

1.33 = $\dfrac{120}{Price_{CB}} \text{ X } 5(1 - 0.745)$

Price_{CB} = Rs.115.04

39. D The ratio of the price of the non-callable bond to the price of the callable bond is the important factor influencing option-adjusted duration. But these two prices are influenced by the price of the call option. Hence the higher the price of the call option, the higher the value of this ratio. Thus OAD is indirectly dependent on the price of the call option. The delta value of a call option lies between 0 and 1. The OAD of a callable bond is less than the duration of a non-callable bond. ≤

Therefore, statements (II) and (III) are not true and correct answer is option (d).

40. E The market order means to buy or sell at the best current market price. Market orders provide immediate liquidity to the market. The investor who wants to buy the stock asks his broker to buy the stock at the lowest available price. Similarly, the seller asks his broker to sell the stock at the highest available price. In market order, the investor is unaware of the price at which the stock will be traded. ≤

41. C Provision of maximum coupon rate which can be given during rising interest rate period is cap feature and provision for payment of minimum coupon rate during falling interest rate is floor feature. Collar is provision of both cap and floor feature to attract the investors. ≤

42. B If the CP is issued for above 3 months up to 6 months, the stamp duty payable is Re.1.00 per Rs.1,000 on face value, payable by the issuer. ≤

Stamp duty = 500 X 5,00,000 X 1/1000 = Rs.2,50,000

43. C The minimum amount of investment in government securities for a single investor is Rs.10,000 (face value) and in multiples thereof. ≤

44. D Repo is an agreement, which involves a sale of a security with an undertaking to buyback the same at a predetermined price at a future date. The transaction is called Repo from the seller side and viewed as reverse repo from the buyer's side. RBI is buyer here. Therefore, from RBI's point of view the transaction will be known as reverse repo. ≤

45. B Standard bank sells 12% GOI 2012 for a face value of Rs.150 crore to Axa Bank at the current market price of Rs.155 crore. The cash outflow to Axa Bank will be as under. ≤

Market value of the security	Rs.155 crore
Interest for the period	Rs.6.15 crore
30.07.2008 to 30.11.2008 (123 days)	
$\left(\frac{123}{360} \times .12 \times 150\right)$	
Total	Rs.161.15 crore

The actual amount borrowed will, therefore, be Rs.161.15 crore.

Price of the security	Rs.155.1623 crore
Interest from 30.07.2008 to	
9.12.2008 (133 days)	
$\left(\frac{133}{360} \times .12 \times 150\right)$	Rs.6.65 crore
Amount to be paid	Rs.161.8123 crore

Interest paid for the repo transaction will be difference between amount to be paid and actual amount borrowed.

Therefore, Interest = 161.8123 – 161.15 = Rs.0.6623

Let the interest rate be x.

So, $161.15 \text{ X x X } \frac{10}{365} = 0.6623$

X= 15%

46. C The minimum tenure for which public deposits can be accepted or renewed is 12 months. It is also stipulated that the maximum maturity period for the deposits cannot exceed 60 months. ≤

47. E A contractor who wants to bid for tender needs to deposit a specified sum of money known as Earnest Money Deposit (EMD). This amount will be refunded to him if the work is not allotted to him. ≤

48. B The success ratio to be maintained by PD's in auction T-Bills = 40% <

(Rs. In crore)

	TSS Ltd	GHN Ltd	RSA Ltd	SPG Ltd
Commitment*40%	280	320	160	240

(Rs. In crore)

Adherence to commitments				Adherence to successful bids				
	Tendered		Commitments	Adhered (Y/N)	Bids Accepted		Required Commitment	Adhered (Y/N)
TSS Ltd	800	>	700	Y	400	>	280	Y
GHN Ltd	850	>	800	Y	300	<	320	N
RSA Ltd	550	>	400	Y	200	>	160	Y
SPG Ltd	400	<	600	N	100	<	240	N

Here, SPG Ltd did not adhere to the commitment on aggressive bidding and also did not achieve the required amount of successful bids.

49. B According to the Principle of Substitution, a rational buyer will not spend more than the amount it is going to cost him if he buys another similar property with the same utility. <

According to principal of change, price is a function of demand and supply and as price fluctuates, the value also fluctuates.

According to principle of marginal productivity, the value of any factor of production or a component of a property can add to or lower the value of the asset.

According to the Principle of Highest and Best Use, a rational owner will try to gain the maximum out of the resources he has.

Therefore, correct answer is option (b).

50. E An option contract is said to be 'In the Money' if the buyer makes a profit if he exercises it now. An 'In the Money' put option has an exercise price that is greater than the current market price of the stock. <

51. A Hedgers are those participants in the futures market who faces risk associated with the price of his/her asset in the spot market. He/she uses futures market to reduce or eliminate fully or partially the risk involved with their assets. Hedging is obtained by taking opposite position in the future market. A person who buys and sells a contract in the hope of profiting from subsequent price movements is known as a speculator. Arbitragers are those market players who try to exploit the discrepancy between prices in two different markets. <

Therefore, statement (I) is an example of hedging and correct answer is option (a).

52. E The settlement date for a spot transaction is generally second business day from the date of transaction. Hence, for transaction done on August 28, 2008 the Thursday, second business day is Monday September 1, 2008, Saturday and Sunday being holidays. <

53. B

Spot Rs./$: 45.80/45.90

3-m Rs./$: 46.05/46.13

The implied inverse quotes would be

Spot $/Rs.: 0.021786/0.021834

3-m $/Rs.: 0.021678/0.021715

Hence,

$$\text{Spot } (\$/\text{Rs.})_{mid} = \frac{0.021786 + 0.021834}{2} = 0.02181$$

$$\text{3-m } (\$/\text{Rs.})_{mid} = \frac{0.021678 + 0.021715}{2} = 0.0216965$$

Therefore, the annualized percentage discount on the rupee will be:

$$\frac{0.0216965 - 0.02181}{0.02181} \text{ X } \frac{12}{3} \text{ X } 100 = -2.08\%$$

≤

54. C

Let the accrued management fees be Rs.x

Value of the portfolio = 1,10,000 × 2,685.45 + 3,12,000 × 259.95 + 4,50,000 × 523.10 + 3,90,000 × 883.30 + 2,99,000 × 502.75 = Rs.1,106,708,150.

= Rs.1,106,708,150 – x

NAV = (Rs.1,106,708,150 – x)/ 107,573,000 = Rs.10.26

X = Rs.30,09,170

≤

55. C

$$\text{Public Offer Price} = \frac{NAV}{1 - \text{Sales Charge}}$$

$$15.97 = \frac{NAV}{1 - 0.03}$$

NAV = 15.49

≤

56. E

$$Market\ \text{Value} = \frac{Net\ \text{Operating Income}}{Capitalization\ \text{rate}}$$

$$12{,}00{,}000 = \frac{2{,}40{,}000}{Capitalization\ \text{rate}}$$

Capitalization rate = 20%

Capitalization rate = Risk-free rate + Rate for non-liquidity + Recapture premium + Risk premium

20% = Risk-free rate + 3.10% + 4.90% + 4.00%

Risk-free rate = 8%

$$8 = \frac{100 - P}{P} \text{ X } \frac{365}{91} \text{ X } 100$$

P = Rs.98.04

≤

57. D

The strategic FoFs generally engage in investing more opportunistic strategies such as emerging markets, sector specific, and equity hedge with the motive of creating superior returns for investors. These funds exhibit a greater dispersion of returns and higher volatility compared to FoFs benchmark. Accordingly, the investment style of Mr. Siva is strategic.

≤

58. A

Current yield = 100/872 = 11.47% ≤

Dividend yield = 1.9/20 = 9.5%

Pay back period = [%Premium/(1+%Premium)]/[Current Yield – Dividend Yield/(1+%Premium)]

4.5 = [%Premium/(1+%Premium)]/[0.1147-0.095/(1+%Premium)]

%Premium = 18.32%

Conversion premium = (Market price of the bond – Conversion value)/Conversion value

0.1832 = (872 – Conversion value)/Conversion value

Conversion value = 736.98

Conversion value = Conversion rate X Market price of share

736.98 = Conversion rate X 20

Conversion rate = 36.85 ≈ 37 (app.)

59. C

Intrinsic value = 12 X $PVIFA_{(14\%,10)}$ + 100 X $PVIF_{(14\%,10)}$ ≤

Intrinsic value = Rs.89.57

60. D

The characteristics of future contracts are: ≤

- These are traded in organized location known as exchange.
- The terms of the contract are highly standardized.
- Contracts are cleared by a separate clearing house.
- Clearing house guarantees the performance of the contract.
- Traders have to deposit initial margin irrespective of their trading position.
- Traders have to pay daily settlement margin depending on the movement in the price of the underlying stock.
- Futures contracts can be easily closed.
- Futures markets are monitored and regulated by special agencies.
- Marking to market is done at the end of every trading day.

61. B

Intrinsic value = x – S = 460 – 479 = Re.0 ≤

Time value = Premium – Intrinsic value = 6.20 – 0 = Rs.6.20.

62. C

To buy 3500 shares, Ideal price = (107 + 106) / 2 = Rs.106.5 ≤

Actual buy price = (3000 × 107 + 500 × 108) / 3500 = Rs.107.14

Impact cost = $\frac{107.14 - 106.5}{106.5} \times 100$ = 0.60%

63. E

An index based on the geometric mean will increase more slowly and decrease more rapidly than an index based on the arithmetic mean. So, arithmetic mean has an upward bias, while geometric mean has a downward bias. The implication of this property is that an index based on arithmetic mean will out perform most of the components in the long run. ≤

Thus, all the statements mentioned are not correct.

64. C Following are the characteristics of z group of shares at BSE: ≤

- Non-compliance with listing norms.
- Non-payment of listing fees.
- Non-submission of quarterly results and annual reports.
- Failure to redress investor complaints.
- Non-fixation of book closure.

So, option (a), (b), (d) and (e) are true.

Companies in B2 group have low trading volumes and they show poor profits. Therefore, option (c) is the correct answer.

65. B Brokerage is 1.5% of the amount of public deposits raised if the tenure of the deposit is between one and two years. ≤

∴ Brokerage = Rs.1,75,43,000*0.015

= Rs.2,63,145

Hence (b) is the correct answer.

66. A The initial issue expenses in respect of any scheme may not exceed 6% of the fund raised under that scheme. So maximum initial issue expenses can be [Rs.400 crore* 0.06] = Rs.24 crore. ≤

So correct option is (a).

67. D Current yield = Coupon/Market value ≤

0.12 = Coupon/105

Coupon = Rs.12.60 or 12.60%.

68. C ≤

$$\text{New Base Year Average} = \text{Old Base Year Average X } \frac{\textit{New}\text{ Market Value}}{\text{Old Market Value}}$$

$$910.10 = 853.89 \text{ X } \frac{\textit{New}\text{ Market Value}}{2500}$$

New Market Value = Rs.2,664.57 lakhs

Increase in value due to right issue = 2664.57 – 2500 = Rs.164.57

69. D The turnover ratio can be calculated as follows: ≤

Total purchase and sales during the year/ Average of month-end stocks during the year.

Let the average of month-end stocks be x.

$$\frac{600+575}{x} = 10$$

X = 117.5

Hence (d) is the answer.

70. C In the situation, given your long position you have profited from the price increase. ≤

Therefore, option (c) is the correct answer.

71. E The insurance premium is payable at the end of December and June every year. Except this all the other statements are true. Therefore option (e) is correct. ≤

72. B Price of the bond at prevailing interest rate of 11% ≤

= 100 × PVIFA (11%,10) + 1000 × PVIF (11%,10)

= 100 × 5.8892 + 1000 × 0.3522 = Rs.941.12

Price of the 10% coupon bond at prevailing interest rate of 12%

= 100 × 5.6502 + 1000 × 0.3220 = Rs.887.02

Capital Loss = 941.12 – 887.02 = Rs.54.10

73. A The margin depends on the price volatility of the underlying. Exchanges generally set this margin equal to ≤

Margin = $\mu + 3\sigma$

Where μ is the average daily absolute is change in the value of the contract and σ is the standard deviation of these changes measured over a period of time.

Substituting the given values, we get

Margin = 3.50 × 1000 + 3 × 0.75 × 1000 = 3500 + 2250 = 5750.

Hence the correct answer is (a).

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