Question paper
Financial Markets (CFA550): July 2008

- **Answer all 74 questions.**
- **Marks are indicated against each question.**

Total Marks : 100

<Answer>

1. Which of the following functions of the financial system ensures a smooth flow of funds from savings to investments in order to stabilize the economy?

(a) Savings function
(b) Policy function
(c) Credit function
(d) Financing function
(e) Investment function. **(1 mark)**

<Answer>

2. Which of the following statements is/are **true** with respect to the types of warrants?

I. Puttable warrants confer a right on the investor to sell the warrant back to the company at a fixed price before the expiry of a fixed period.
II. Detachable warrants are issued separately and not as a part of a bond issue and the holder has an option of converting the warrant into debt or equity.
III. Wedding warrants are attached to the host debentures and can be exercised only if the host debenture is surrendered.

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

<Answer>

3. Which of the following provisions is attached to the collar feature of Floating Rate Notes (FRNs)?

(a) Provision for calling back the FRNs by the issuer on pre-specified date and price
(b) Provision for redeeming the FRNs by the investor on pre-specified date and price
(c) Provision for payment of maximum coupon rate during rising interest rates
(d) Provision for payment of minimum coupon rate during falling interest rates
(e) Provision for both cap and floor feature to attract the investors. **(1 mark)**

<Answer>

4. Which of the following is an objective of the lender?

(a) Minimum terms and conditions attached with the usage of funds
(b) Minimum risk with the investment
(c) Minimum lead time in obtaining the required funds
(d) Minimum monitoring and interference
(e) Access to funds up to the desired period of time. **(1 mark)**

<Answer>

5. Which of the following statements is/are **not true** with respect to Semi-Government dated securities?

I. These securities usually carry a higher coupon rate than their counterpart state government dated securities.
II. Interest payments and transfers of these securities are handled by the RBI.
III. The price quotations for these securities are reported to stock exchange for inclusion in the official quotations list by licensed dealers.

(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>

6. Duration is a generic concept that indicates a bond's response to a change in interest rates. In this context, which of the following statements is/are **true**?

I. Modified duration assumes that the cash flows change with a change in the yield.
II. Effective duration measures the sensitivity of the bond's price considering that the expected cash flows do not change on account of changes in the yield.
III. For a callable bond, the use of modified duration is not suitable because the expected cash flow changes as the yield changes.

(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>

7. Which of the following financial instruments is classified as banking sector securities?

(a) Commercial papers
(b) Money market mutual funds
(c) Bills of exchange
(d) Participation certificates
(e) Inter corporate deposits. **(1 mark)**

<Answer>

8. Which of the following statements is/are **true** regarding risk exposure in money market instruments?

I. As the maturity of money market instruments is short, these instruments are not exposed to reinvestment risk.
II. All the money market instruments are considered as risk free.
III. Compared to long term securities, money market instruments have minimal inflation risk.

(a) Only (I) 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>

9. If RBI wants to reduce the money supply, it can

I. Offer to buy securities at yields lower than the market related rates.
II. Undertake repo transactions by selling the securities in the first leg and buying them back later.
III. Undertake switch deals.

(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>

10. Sailesh Gilts Ltd., a primary dealer in the Indian money market, participated in the T-Bills auction during the year. If the commitment of Sailesh Gilts Ltd. to aggregate bidding is Rs.1,687.5 crore, the successful amount of bids to be maintained by Sailesh Gilts Ltd. is

(a) Rs.700 crore
(b) Rs.675 crore
(c) Rs.562 crore
(d) Rs.506 crore
(e) Rs.480 crore. **(1 mark)**

<Answer>

11. Which of the following institutions can operate as both lender and borrower in the call/notice money market in India?

(a) State Bank of India
(b) Life Insurance Corporation of India
(c) Unit Trust of India
(d) Kotak Mutual Fund
(e) GIC Mutual Fund. **(1 mark)**

<Answer>

12. Which of the following statements is **false** with respect to Primary Dealers (PDs) in Indian market?

(a) The PDs are permitted to borrow and lend in the money market
(b) The PDs are provided with current and SGL accounts
(c) The PDs cannot access finance through REPOs
(d) The PDs can raise funds through commercial papers
(e) The PDs are provided access to liquidity adjustment facility. **(1 mark)**

<Answer>

13. Which of the following statements is/are **true** with regard to the Indian call money market?

I. The call rates are calculated on a weekly basis.
II. The call rates are highly volatile.
III. Low call rates indicate lack of liquidity in the financial system.
IV. In the money market, call rates are quoted on the annualized basis.

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

<Answer>

14. Which of the following statements is **false** with respect to interest rate structure in the Indian money market?

(a) There is no ceiling on the call money rates
(b) The forces of supply and demand for funds largely influence the call rates
(c) Call rate under the normal liquidity conditions is the floor rate for the term money market
(d) The prevailing prime lending rate influences the inter bank participations rate since the underlying security is a loan asset
(e) The banks which have an aggressive approach would prefer to invest in inter bank participations rather than in call money market. **(1 mark)**

<Answer>

15. Which of the following statements is/are **true** with respect to change in interest rates?

I. If interest rates rise, the price of the non-callable bond and the price of the call option will fall.
II. If interest rates rise, the price of the non-callable bond will fall and the price of the call option will increase.
III. If interest rates fall, the price of the non-callable bond and the price of the call option increase.
IV. If interest rates rise, the price of the non-callable bond will increase and the price of the call option will fall.

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

<Answer>

16. Which of the following statements is/are **true** regarding auction of Treasury Bills in India?

I. Non-competitive bids are accepted at the weighted average of the successful bids, if the notified amount is not fully subscribed.
II. The amount of tender by non-competitive bidders is conveyed to RBI, three days before the date of auction.
III. The unsubscribed portion is subscribed by the RBI at a cut-off rate which is evolved in the process of auction.

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

<Answer>

17. Recently, RBI issued a tender notification for 91day treasury bills of Rs.100 each for Rs.500 crore and the cut-off price was determined as Rs.98.45. Mr. Rao, one of the competitive bidders who responded to the notification has submitted the tender for Rs.20 crore. The details of price quotation are given as under:

Price Quoted (Rs.)	98.95	99.10	99.25
Amount (Rs. in crore)	10	5	5

If the tender of Mr. Rao was accepted, the yield earned by Mr. Rao would be

(a) 3.64%
(b) 3.80%
(c) 3.95%
(d) 6.22%
(e) 6.31%. **(2marks)**

<Answer>

18. Scout Ltd. is a primary dealer dealing in Government Securities. The following are the details of its transactions during the last financial year:

Total purchases of T-bills : Rs.450 crore
Total sales of T-bills : Rs.300 crore
Average of month-end stock : Rs.78 crore

The turnover ratio of Scout Ltd., would be

(a) 9.615
(b) 5.764
(c) 4.196
(d) 3.858
(e) 1.924. **(1 mark)**

<Answer>

19. A T-bill maturing in 'n' days can be purchased from the market at the current price of Rs.95.40. On maturity, the annualized yield to the investor will be 5.25%. The T-bill matures in

(a) 28 days
(b) 40 days
(c) 91 days
(d) 182 days
(e) 335 days. **(1 mark)**

<Answer>

20. The minimum size of a certificate of deposit issued to a single investor is

(a) Rs.5 lakh and in multiples of Rs.1 lakh thereafter
(b) Rs.1 lakh and in multiples of Rs.1 lakh thereafter
(c) Rs.5 lakh and in multiples of Rs.5 lakh thereafter
(d) Rs.25 lakh and in multiples of Rs.5 lakh thereafter
(e) Rs.10 lakh and in multiples of Rs.1 lakh thereafter. **(1 mark)**

<Answer>

21. Punjab National Bank is issuing 6 month CDs worth Rs.100 lakh at a price of Rs.95,65,460. The stamp duty payable is

(a) Rs.50,000 by the investor
(b) Rs.50,000 by the issuer
(c) Rs.37,500 by the issuer
(d) Rs.25,000 by the investor
(e) Rs.25,000 by the issuer. **(1 mark)**

<Answer>

22. Premier Ltd. is a Primary Dealer in the Government Securities. During the auction of dated securities, it has an agreement with the RBI for the underwriting commitment of 10% of the shortfall. The devolvement on Premier Ltd. is Rs.2.5 crore. The competitive bids accepted at cut-off price (including non-competitive bids) are Rs.1000 crore. The amount notified for the bids is

(a) Rs. 800 crore
(b) Rs. 900 crore
(c) Rs.1100 crore
(d) Rs.1200 crore
(e) Rs.1300 crore. **(2marks)**

23. Which of the following statements is **true** with respect to Certificates of Deposits (CDs)? <Answer>

(a) Banks can issue CDs for a minimum period of one year and a maximum of 3 years
(b) CDs are not subject to stamp duty
(c) CDs can be transferred only after a lock-in period of 45 days
(d) CDs are not subjected to usual reserve requirements
(e) Premature payment or loans against CDs by the issuer is not allowed. **(1 mark)**

24. M/s. PeeCee Ltd. has received the second highest credit rating for its issue of commercial paper. If it's tangible net worth is Rs.3 crore, which of the following statements is **true** with respect to the issue of commercial paper? <Answer>

(a) It can issue commercial paper within the maximum limit of Rs.3 crore
(b) It can issue commercial paper with the maximum limit of Rs.1.5 crore
(c) It can issue commercial paper to any amount
(d) It can issue commercial paper with the maximum limit of Rs.4.5 crore
(e) It cannot issue commercial paper. **(1 mark)**

25. Raj Enterprises is coming out with an issue of commercial paper of amount Rs.100 lakh with a maturity of 5 months. The brokerage charges payable by it shall be <Answer>

(a) Rs.5,000
(b) Rs.3,250
(c) Rs.3,000
(d) Rs.2,500
(e) Rs.2,000. **(1 mark)**

26. Which of the following factors **is not** the determinant of the premium on the warrant? <Answer>

(a) Maturity period of warrant
(b) Price volatility of the share
(c) Duration of the bond attached to the warrant
(d) Dividend on the stock
(e) Potential leverage on the warrant. **(1 mark)**

27. Which of the following bills becomes a clean bill immediately after the delivery of the documents? <Answer>

(a) Documentary bill
(b) Inland bill
(c) Supply bill
(d) Delivery just against acceptance bill
(e) Delivery only against payment bill. **(1 mark)**

28. Which of the following statements is/are **true** regarding reverse repos? <Answer>

I. Simultaneous selling and buying of same security at a predetermined future date and predetermined price is referred to as reverse repo.
II. NBFCs can enter into reverse repos.
III. The minimum maturity for repo transaction is 1 week.

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

29. Bank of India proposes to borrow on June 30, 2008, an amount of Rs.50 crore from Bank of South India for a period of 3 days at an interest of 12% p.a. as against 13% GOI Securities, which have a face value of Rs.50 crore trading at Rs.52 crore and maturing on September 30, 2012. The interest payment on these securities is due on April 30 and September 30 every year. The amount actually borrowed by Bank of India in this repo transaction is <Answer>

(a) Rs.50.315 crore
(b) Rs.51.625 crore
(c) Rs.53.101 crore
(d) Rs.53.425 crore
(e) Rs.53.685 crore. **(1 mark)**

<Answer>

30. Shriram Finance Company currently pays interest on public deposits at the following rates:

Term of deposit	Rate of interest (%) p.a
One year	10
Two years	13
Three years	14

Mr. Rahul, one of the deposit holders with Shriram Finance Company, wants to withdraw his 3 year public deposit at the end of two years from the date of deposit. The maximum interest rate payable to Mr. Rahul on his public deposit is

(a) Nil
(b) 11%
(c) 12%
(d) 13%
(e) 14%. **(1 mark)**

<Answer>

31. The maximum amount of brokerage payable for soliciting an 18-month public deposit of Rs.1,00,000 is

(a) Rs.1,000
(b) Rs.1,500
(c) Rs.2,000
(d) Rs.2,500
(e) Rs.3,000. **(1 mark)**

<Answer>

32. Which of the following statements is/are **true** regarding public deposits of manufacturing companies?

I. The company can accept public deposits to be repaid on demand or on notice.
II. A security deposit received from an employee can be defined as a public deposit.
III. The minimum tenure for which the public deposits can usually be accepted is 12 months.

(a) Only (I) 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>

33. Which of the following statements is/are **not true** regarding the insurance provided on the bank deposits by the Deposit Insurance and Credit Guarantee Corporation (DICGC)?

I. The maximum insurance cover is Rs.1,00,000 for each depositor.
II. The premium payable for the insurance is at the rate of 3 paisa per half-year for every 100 rupees.
III. The premium is payable by the depositor.

(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>

34. Export Credit and Guarantee Corporation (ECGC) offers a risk cover for goods which are exported on the basis of short-term credit not extending 180 days is called

(a) Specific Policy
(b) Standard Policy
(c) Post Shipment Export Credit Guarantee
(d) Small Exporter's Policy
(e) Export Finance Guarantee. **(1 mark)**

<Answer>

35. Mr. Dubey has deposited Rs.3,50,000 with Alp Ltd. for two years at the rate of 11.5% p.a. If he wants to withdraw the entire amount at the end of 11^{th} month, the amount that will be refunded by the company to Mr. Dubey as per Rule 8(1) of the Companies (Acceptance of Deposits) Rules, 1975, is

(a) Rs.3,82,083
(b) Rs.3,86,895
(c) Rs.3,88,625
(d) Rs.3,92,214
(e) Rs.3,94,360. **(2marks)**

36. Which of the following statements is/are **false** with respect to Stop Loss Price Order? <Answer>

I. It is an order that allows the price to be specified while entering the order into the system.
II. It allows the trading member to place an order that gets activated only when the market price of the relevant security reaches a threshold limit.
III. It is an order to buy or sell securities at the best price obtainable at the time of entering the order.

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

37. The market value of the shares included in NIFTY Index on a day is Rs.31.08589 trillion. In the base year, the aggregate market value of Index was Rs.2.06 trillion. The market value of shares of a company which has been amongst the 50 shares since beginning increases by Rs.1.240 trillion due to recent rights issue. The revised value of base year market capitalization is <Answer>

(a) Rs.3.2665 trillion
(b) Rs.2.8468 trillion
(c) Rs.2.1422 trillion
(d) Rs.2.1040 trillion
(e) Rs.1.9711 trillion. **(1 mark)**

38. Consider the following data pertaining to shares of companies included in an index: <Answer>

Share	Base period Price (Rs.)	Current period Price (Rs.)
A	80	130
B	60	92
C	75	65
D	50	54

The base period index is 100. The current period index based on geometric mean will be

(a) 120.44
(b) 126.67
(c) 136.67
(d) 196.67
(e) 233.22. **(2marks)**

39. Which of the following statements is/are **true** with respect to OTCEI? <Answer>

I. It helps to reduce the delay in settlement.
II. Scheduled banks and banking subsidiaries are not allowed to become members of OTCEI.
III. It removes illiquidity by introducing new players, namely compulsory market makers to help the small investors for sale of their securities.

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

40. Which of the following characteristics is **true** with regard to B2 group of shares at BSE? <Answer>

(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)**

41. The implied price of a non-callable bond is Rs.112 and the observed price of a callable bond is Rs.105.45. Duration of the non-callable bond is 4.5 years. If the option-adjusted duration is 1.567, the delta of the call option is <Answer>

(a) 0.624
(b) 0.672
(c) 0.743
(d) 0.786
(e) 0.828. **(2marks)**

42. Maxwell Inc. recently issued 15-year bonds. The bonds have a coupon rate of 7.5% and pays interest semi-annually. The bonds are callable in 5 years at a call price equal to 13% premium to par value. The par value of each bond is Rs. 1,000. If the yield to maturity is 6%, the yield to call is <Answer>

(a) 3.45%
(b) 4.21%
(c) 5.07%
(d) 6.28%
(e) 7.34%. **(3marks)**

43. Mr. Sahil bought a 5 year bond of face value Rs.1000 carrying an annual coupon rate of 7%. What will be the capital gain to Mr. Sahil, if the interest rates go down from 9 % to 7%? <Answer>

(a) Rs.74.21
(b) Rs.77.79
(c) Rs.84.22
(d) Rs.90.16
(e) Rs.91.16. **(2marks)**

44. In the present depressed scenario of capital market, new investment proposals with good fundamentals are finding fancy with convertibles. Recently, M/s Kothari has come out with a convertible bond as per the following details: <Answer>

Particulars	Rs.
Issue price of bond	200
Market price of one equity share (FV Rs.10)	14

If the premium over conversion value is 19.05%, the conversion rate is

(a) 16
(b) 15
(c) 13
(d) 12
(e) 10. **(2marks)**

45. Other things being equal, which one of the following bonds will have the maximum volatility? <Answer>

(a) 5-year, 10% coupon bond
(b) 5-year, 15% coupon bond
(c) 10-year, 15% coupon bond
(d) 15-year, 10% coupon bond
(e) 15-year, 15% coupon bond. **(1 mark)**

46. At the beginning of a trading day, Mr. Saurav is in a short position in the futures market and his collateral is exactly at the required margin. If the closing futures price is below the opening price, at the end of the day, <Answer>

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

47. The main difference(s) between futures and forward contracts is/are <Answer>

I. Unlike futures, forward contract is standardized in terms of quality, quantity and terms of delivery.
II. Unlike futures, forward contracts are traded in an organized exchange.
III. Unlike forwards, futures contracts are cleared by a separate clearing house.

(a) Only (I) 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)**

48. Rohit is bearish on the stock of the Jindal Corporation and purchased six 3-month put option contracts with the strike price of Rs.45 at the price of Rs.5. If the price of the stock on expiry date is Rs.30 and contract size is 100, the net pay off to Rohit is <Answer>

(a) Rs.3,000
(b) Rs.6,000
(c) Rs.12,000
(d) Rs.(6,000)
(e) Rs.(12,000). **(2marks)**

49. On June 13, 2008 the following information was available on the stock of Solaris Computers Ltd. <Answer>

Current market price	Rs.225.50
June 2008 Call option	
Strike price	Rs.222.75
Premium	Rs.7.25
Contract size	1000

On the above date, Mr. Kamesh bought two call option contracts. On June 26, 2008, the expiry date of the call option, market price of the stock was Rs.220. If Mr. Kamesh squared his position on the expiry date, net profit /loss made by him is

(a) Rs.7,700 (profit)
(b) Rs.14,500 (profit)
(c) Rs.14,500 (loss)
(d) Rs.7,700 (loss)
(e) Rs.4,500 (loss).

(2marks)

50. Mr. Goswami writes 5 naked call option contracts with the strike price of Rs.110. The option price is Rs.4 and the MTNL stock price is Rs.103. If each option contract is of 1600 shares, the initial margin to be deposited by Mr. Goswami is <Answer>

(a) Rs.1,05,800
(b) Rs.1,14,400
(c) Rs.1,40,800
(d) Rs.1,80,600
(e) Rs.2,10,000. **(3marks)**

51. Mr. Ranga Rajan bought a futures contract on oil with an initial margin of Rs.10,000 and the maintenance margin of Rs.7,500. If the balance in the margin account is Rs.8,000, the variation margin to be deposited by him is <Answer>

(a) Rs.10,000
(b) Rs.8,000
(c) Rs.7,500
(d) Rs.500
(e) Nil. **(2marks)**

52. An option is said to be <Answer>

I. In-the-money call option, if the exercise price is below the current market price of the underlying security.
II. In-the-money call option, if it has positive value when buyer exercises it.
III. Out-of-money put option, if it has an exercise price above the current market price of the underlying security.

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

53. Mr. Anand, writes Rs.50 call option on the stock of JM Ltd., which he bought at a price of Rs.45.5. If the premium on the option is Rs.2, then the maximum possible gain to Mr. Anand is <Answer>

(a) Rs.3.00
(b) Rs.4.25
(c) Rs.5.58
(d) Rs.6.50
(e) Rs.7.80. **(2marks)**

54. Which of the following statements is/are **not** considered as speculative transaction(s)? <Answer>

I. Contract in respect of stocks and shares entered into by a dealer or investor therein to guard against loss in his holdings of stocks and shares due to price fluctuations.
II. Contract entered into by a member of a forward market or a stock exchange in the course of any transaction in the nature of jobbing to guard against loss arising in ordinary course of business.
III. Contract entered into by a person to guard against loss through future price fluctuations in respect of his contracts for actual delivery of goods manufactured by him or merchandise sold by him.

(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)**

55. The average daily price change in coffee futures contract is Rs.3.25 per kg and the standard deviation of the price changes is Re.0.65. If the size of the contract is 1000 kgs, the initial margin required is <Answer>

(a) Rs.1,000
(b) Rs.2,000
(c) Rs.3,000
(d) Rs.5,200
(e) Rs.7,500. **(2marks)**

56. Which of the following statements is/are **true** in relation to the trading of option contract? <Answer>

I. Options are not traded in the over-the-counter (OTC) market in India.
II. The loss to the option buyer is unlimited and profit potential is limited.
III. Options are employed by both hedgers and speculators.

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

57. The 'Contango' in a futures market refers to a situation <Answer>

I. When the futures price is higher than cash price.
II. When the futures price is lower than cash price.
III. When the basis is positive.
IV. When the basis is negative.

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

58. The following details pertain to an issue of convertible bonds by M/s. Krishna Ltd. <Answer>

Particulars	Rs.
Bond price	100
Market price of one Equity (face value Rs.10)	8.2
Conversion Rate	11

The conversion parity price of the stock is

(a) Rs. 8.25
(b) Rs. 9.09
(c) Rs. 9.25
(d) Rs.10.19
(e) Rs.10.45. **(1 mark)**

59. Consider the following data of JM Financial Mutual Fund (Income plan): <Answer>

Particulars	Rs. in crore
Value of investments	1737.10
Liabilities	390.85
Receivables	130.30
Accrued income	43.40
Accrued expenses	86.86
Other current assets	521.13

If present NAV of the mutual fund is Rs.12.37 per unit, the number of outstanding units will be

(a) 147.45 crore
(b) 157.98 crore
(c) 172.02 crore
(d) 221.17 crore
(e) 235.22 crore. **(2marks)**

<Answer>

60. LFD Infrastructure is considering the construction of a shopping mall, which is proposed to be financed with the issue of bonds and equity. 60% of fund required is projected to be met with the bond issue and the rest with the equity issue. The bond carries a coupon rate of 11%, with the maturity period of 12 years. LFD plans to establish a sinking fund to redeem the bonds. The required rate of return on the equity is 20%. If the annual net operating income from the mall is expected to be Rs.4,00,000 infinitely, the market value of the mall is

(a) Rs.15,00,000
(b) Rs.19,70,721
(c) Rs.23,20,186
(d) Rs.25,00,000
(e) Rs.35,50,000. **(3marks)**

<Answer>

61. Mr. Raman is involved in conducting the valuation of real assets. He intends to apply market extraction method to value the housing property which is under his consideration. He collected the following information pertaining to four similar residential properties.

Property	Net Operating Income (Rs.)	Market Value (Rs.)
House No. 1	18,000	3,50,000
House No. 2	20,000	3,65,000
House No. 3	24,000	3,95,000
House No. 4	28,000	4,20,000

The capitalization rate that he can apply to value the housing property under consideration is

(a) 5.84%
(b) 7.19%
(c) 13.91%
(d) 19.81%
(e) 23.37%. **(2marks)**

<Answer>

62. Which of the following statements is/are **true** with respect to the various methods of valuation of real assets?

I. In Built-up method, financing structure of the assets is considered for valuation purpose.
II. In Band of Investment method, the illiquid nature of the assets is considered for valuation purpose.
III. In Market Extraction method, comparable property is selected to choose a rate which reflects market sentiments.

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

63. Net asset value of each unit of FT Mutual Funds is Rs.13.25 and the public offer price is Rs.13.52. The sales charge on the NAV is approximately <Answer>

(a) 1.50%
(b) 2.00%
(c) 2.75%
(d) 3.25%
(e) 4.00%. **(1 mark)**

64. Which of the following statements is **true** regarding mutual funds? <Answer>

(a) The shares of close-ended funds are redeemable at their NAV
(b) Open-ended funds can sell unlimited number of units
(c) Growth funds invest usually in companies with high price-earnings ratio and higher price volatility
(d) Real estate fund is an open-ended fund
(e) Specialized funds carry low risk. **(1 mark)**

65. It is observed that the current price of a close-ended mutual fund is less than the NAV. Which of the following is/are likely to be the reason(s) for the same? <Answer>

I. Investors doubt about the abilities of the fund's management.
II. Lack of sales effort.
III. Riskiness of the fund.
IV. Lack of marketability of the fund's units.

(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) All (I), (II), (III) and (IV) above. **(1 mark)**

66. Which of the following is **not** the reason for attractiveness of real estate? <Answer>

(a) Capital appreciation of real estate is in general very high
(b) Loans are available from various financial institutions/banks for buying or constructing real estate
(c) Interest on loans taken for buying or constructing a residential home is tax deductible within certain limits
(d) Real estates are less illiquid
(e) Ownership of a residential property provides psychological satisfaction. **(1 mark)**

67. Which of the following statements is/are **not true** with regard to Public Provident Fund scheme? <Answer>

I. It is a security form of financial investment.
II. The amount contributed to the PPF account is eligible for tax rebate.
III. The facility of nomination is available in this scheme.

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

68. The risk which arises due to the changes in the value of option for a change in the price of securities underlying the option is known as <Answer>

(a) Herd risk
(b) Greeks risk
(c) Security specific risk
(d) Market risk
(e) Operational risk. **(1 mark)**

69. The annual inflation rate in India is 7.9% and that in U.S.A. is 3.9%. The current Rs./$ exchange rate is Rs.42.80/$. If the same trend in annual inflation rates is expected to prevail for the next 2 years, the expected Rs./$ exchange rate after 2 years should be <Answer>

(a) 44.44
(b) 45.50
(c) 45.82
(d) 46.16
(e) 46.54. **(1 mark)**

70. An Indian company requires Euro in exchange of $ and approached a forex dealer. The dealer has provided the following rates: <Answer>

Rs./$: 40.08/12
Rs./Euro : 63.32/37

The rate quoted to the company is

(a) $/Euro 1.5776
(b) $/Euro 1.5782
(c) $/Euro 1.5798
(d) $/Euro 1.5811
(e) $/Euro 1.5820. **(2marks)**

71. A New York based Foreign Institutional Investor (FII), made a portfolio investment on the Bombay Stock Exchange, when each $ was trading at Rs.43. By the end of the year, each $ was trading at Rs.40.08. If the return earned on the portfolio in rupee terms during the one year period is 20%, the return earned by FII in dollar terms is <Answer>

(a) 20.55%
(b) 19.45%
(c) 18.06%
(d) 17.85%
(e) 28.74%. **(2marks)**

72. Consider the following information: <Answer>

£/Euro : 0.7951/0.7954
$/£ : 1.5811/1.5815

The synthetic quotes of $/Euro are

(a) 1.2571/74
(b) 1.2571/79
(c) 1.2573/79
(d) 1.2574/82
(e) 1.2576/83. **(2marks)**

73. Consider the following rates: <Answer>

Rs./$Spot 40.08/40.12
3 months forward premium 36/38 paisa

The annualized premium of dollar is

(a) 3.50%
(b) 3.69%
(c) 3.85%
(d) 4.34%
(e) 4.67%. **(2marks)**

<Answer>

74. An American Mutual Fund company invested US$ 2 million in Bombay Stock Exchange on 31.12.2007 when the BSE Sensex was at 20,286.99 points. The company on 29.03.2008 observed that its portfolio was depreciated by 23% when the BSE Sensex touched 15,644.44 points. If the company decided to withdraw the investment from India, what would be the net increase or decrease in his investment in terms of dollar?

Rs./$ spot rates are quoted as:

On 31.12.2007 : 41.30/41.33
On 29.03.2008 : 40.08/40.12

(a) (4,14,705.88)
(b) (4,24,840.25)
(c) 4,01,258.20
(d) 4,14,705.88
(e) 4,24,840.25. **(3marks)**

END OF QUESTION PAPER

Suggested Answers
Financial Markets (CFA550): July 2008

	Answer	**Reason**	
1.	B	Policy function of a financial system ensures smooth flow of funds from savings to investments in order to stabilize the economy. Hence, alternative (b) is answer. Savings function ensures mobilization of savings to provide a potentially profitable and low risk outlet. Credit function ensures that the savings transform into the necessary credit for investment and spending purposes.	<
2.	D	Puttable warrants confer a right on the investor to sell the warrant back to the company at a fixed price before the expiry of a fixed period. Statement (I) is correct. It is not the detachable warrants but the naked warrants, which are issued separately and not as a part of a bond or a debenture issue. The holder has the option of converting the warrant into debt or equity. Statement (II) is not correct. Wedding warrant**s** are attached to the host debentures and can be exercised only if the host debenture is surrendered. Statement (III) is correct. Hence, option (d) is the correct answer.	<
3.	E	Floating Rate Notes are issued with features such as: i. Call feature: Right to call back the issue by the issuer on pre-specified date and price. ii. Put feature: Right to investors for redeeming the Floating Rate Notes on pre-specified date and price. iii. Cap feature: Having provision of maximum coupon rate which can be given during rising interest rate period. iv. Floor feature: Provision for payment of minimum coupon rate during falling interest rates. v. Collar feature: Provision of both cap and floor feature to attract the investors. Therefore, option (e) is the answer.	<
4.	B	The lender generally consider the following while investing in the financial instrument: 1. Risk. 2. Liquidity. 3. Returns. 4. Tax planning. 5. Cash flows. 6. Simplicity. Except option (b) all other are the objectives pertaining to the debt issuer. Hence, the answer is option (b).	<

5. B The semi-government dated securities are not issued at discount. They carry coupon rate higher than their counterpart state government dated securities. Interest payments and transfers of these securities are handled by the commercial banks not by RBI. The price quotations for these securities are reported to stock exchange for inclusion in the official quotations list by licensed dealers. Hence, the correct answer is option (b). <

6. B Modified duration is a measure of duration in which it is assumed that the cash flows do not change with change in the yield. <

Effective duration measures the sensitivity of the bond's price considering that the expected cash flows change on account of changes in the yield due to the option available with it.

For a callable bond, the use of modified duration is not suitable because the expected cash flow changes as the yield changes.

The sensitivity of the price of the callable bonds to the change in the interest rates depends on the changes in the components of the callable bond to the changes in the interest rates. The price volatility of a non-callable bond to the changes in the interest rates depends on its duration.

Therefore, option (b) is the correct answer.

7. D Banking Sector Securities are <

- Call and Notice Money Market.
- Term Money Market.
- Certificates of Deposits.
- Participation Certificates.

Hence, the correct answer is option (d) and all other options are related to Private sector securities.

8. B All money market instruments though short term in nature are exposed to reinvestment risk i.e., the risk of reinvesting the redeemed funds at a lower rate in case of falling interest rate scenario. Hence, statement (I) is not true. <

Except for government securities other securities have the probability of default by the borrower in the repayment of the principal and/or interest. Hence, statement (II) is not true.

As money market instruments are short term in nature the inflation risk is considered to be minimal as compared to long term securities. Hence, statement (III) is true and the correct answer is option (b).

9. B When RBI undertakes Repo transactions it will be selling the securities in the first leg and buying them back later. Hence, Repos involve reduction in money supply for the period of repo. Hence, statement (II) is correct and the answer is option (b). <

If RBI wants to reduce the money supply it can offer yields on specified securities which are higher than those prevailing in the market. If RBI offers yields lower than the market rates investors would not be interested in purchasing and there would be no reduction in money supply. Hence, statement (I) is not correct. Switch deal involves simultaneous purchasing and selling of different securities by a person so that the composition of the portfolio can be changed without significant costs. Such deals will not have any impact on the money supply. Hence, statement (III) is not correct.

10. B The minimum success ratio for the PDs is 40% for T-Bills. Since the commitment of the company is given as Rs.1,687.5 crore, the successful bids to be maintained by the company is Rs.1,687.5 x 0.40 = Rs.675 crore. <

11. A Few participants in the call money market can operate both as lender and borrowers while others can operate only as lenders. The first category comprises of the banking companies, DFHI, STCI and primary dealers. In the given case only SBI is allowed to operate as both a lender and a borrower. ≤

12. C Following are some of rights given to PDs in India: ≤

- The PDs are permitted to borrow and lend in the money market and the debt market.
- The PDs are having access to Current and SGL accounts.
- The PDs can access finance through REPOs.
- The PDs can raise funds through CPs.
- The PDs are provided access to liquidity adjustment facility.

Hence (c) is the false statement. Therefore (c) is the correct answer.

13. D Call money market is a part of the money markets, where, day-to-day surplus funds, mostly of banks are traded. The interest paid on call loans are known as the call rates. Call rates are expected to freely reflect the day-to-day market scarcities or lack of funds. These rates vary very often and are considered as very volatile and in the money market call rates are quoted on the annualized basis. Hence, statements (II) and (IV) are true and option (d) is the answer. Call rates are calculated on a daily basis. Hence, option (I) is incorrect. High rates indicate a tightness of liquidity while low rates indicate an easy liquidity position in the market. Hence, statement (III) is also incorrect. ≤

14. E Following statements are correct: ≤

- The major factor which determines the borrowing rates in the call money market, is the demand supply condition.
- There is no ceiling on the call money rates.
- Call rates are under the normal liquidity conditions, are the floor rate for the term money market
- The prevailing PLR influence the Inter Bank Participations (IBP) rate
- The banks which have a conservative approach would prefer to invest in IBPs rather than call money market.

Hence, option (e) is the correct answer.

15. E If interest rates rise, the price of the non-callable bond will fall and the price of the call option also will fall. The decline in the price of the call option is because it becomes less valuable as the interest rates rise. When the interest rates fall, both the price of the non-callable bond and the price of the call option increase. This will cause the price of a callable bond also to increase but to a lesser extent. Therefore, option (e) is the answer. ≤

16. D In the auction of T-Bills in India, successful competitive bids will be accepted up to the minimum discounted price called 'cut-off' price determined at the auction. The bids above the cut-off price are accepted completely and bids at offer prices below cut-off price are rejected. If the notified amount is not fully subscribed to the non-competitive bids are accepted at the weighted average of the successful bids. Hence, statement (I) is true. The amount of tender by non-competitive bidders is conveyed to RBI before the day of auction or on the day of auction. Hence, statement (II) is not true. The unsubscribed portion is subscribed by the RBI at a cut-off rate which is evolved in the process of auction. Hence, statement (III) is true. Hence, option (d) is correct answer. ≤

17. B

Yield in Treasury Bills = $\left[\frac{\text{Face value}}{\text{Price}} - 1\right] x \frac{365}{\text{No. of days to maturity}}$ [≤](#)

Face value = 100

Average yield for Mr. Rao $= 98.95x\frac{10}{20} + 99.10x\frac{5}{20} + 99.25x\frac{5}{20} = Rs.99.0625$

Days to maturity = 91

Yield = $\left[\frac{100}{99.0625} - 1\right] \times \frac{365}{91} = 0.037959$

i.e. Yield = 3.7959% ≈ 3.8%

The cut-off price is immaterial for the calculation of yield to the investor, as it is less than the price quoted by him.

18. A The turnover ratio can be calculated as follows: [≤](#)

$\frac{450 + 300}{78} = 9.615$

Hence, option (a) is the answer.

19. E The value of n can be calculated as follows: [≤](#)

$\frac{Facevalue}{\Pr ice} = \frac{Days * Yield}{365} + 1$

$\frac{100}{95.40} = \frac{Days * 0.0525}{365} + 1$

Therefore, n= 335 days.

20. B The minimum size of certificate of deposit is Rs.1 lakh and is issued in multiples of Rs.1 lakh thereafter. [≤](#)

21. E The current rates of stamp duty as paid by the issuer on the face value of the CD are as follows: [≤](#)

Period	Stamp Duty (% to face value)
Up to 3 months	0.125
Above 3 months – Up to 6 months	0.250
Above 6 months – Up to 9 months	0.375
Above 9 months – Up to 12 months	0.500

Therefore for a 6 month CD of Face Value Rs.100 lakh, the stamp duty payable by the issuer is 0.250% of Rs.100,00,000 = Rs.25,000. Hence, option (e) is the right answer.

22. C When Premier Ltd. accepted for 10% of short fall, its total devolvement accounted for Rs.2.5 crore. [≤](#)

Total devolvement on PDs = Rs.2.5 crore/0.10 = Rs.25 crore.

In case of dated securities, total devolvement on PDs is 25% of total short fall

Therefore, total short fall = Rs.25 crore/0.25 = Rs.100 crore

If the bids accepted at cut-off price are Rs.1000 crore, the amount notified is Rs.1100 crore, (Rs.1000 crore + Rs.100 crore).

Hence, option (c) is the correct answer.

23. E Following are some guidelines relating to CDs: ≤

- Banks can issue CDs for a minimum period of 7 days to a maximum of one year, whereas a financial institution can issue it for a minimum of one year and a maximum of 3 years.
- CDs are subjected to stamp duty.
- CDs can be transferred immediately after the date of issue and can be traded in secondary market.
- All CDs are subjected to usual CRR and SLR requirements.
- Premature payment or loans against CDs by the issuer is not allowed.

Hence, option (e) is the correct answer.

24. E Commercial papers are short-term, unsecured promissory notes issued at a discount to face value by well-known companies that are financially strong and carry a high credit rating. As per the guidelines, any company wishing to raise money through CP has to fulfill the following requirements: ≤

i. The tangible net worth of issuing company should not be less than Rs.4 crore.

ii. The fund based working capital limit should not be less than Rs.4 crore

iii. The company should obtain the second highest credit rating from one of the approved credit rating agencies.

iv. Board resolution authorizing the issue is required.

Of the above, in the given case, the company has not met conditions (i) and (ii). Hence, it cannot issue commercial paper of any amount. Hence, the answer is alternative (e).

25. A Since the maturity of the instrument is 5 months. ≤

Brokerage charges: 0.05% of the issue amount = Rs.5,000. Hence, alternative (a) is the correct answer.

26. C The following factors determine the premium on the warrant. ≤

- Maturity Period of Warrant
- Price Volatility of the Share
- Dividend on the Stock
- Potential Leverage on the Warrant.

Hence, option (c) is the answer

27. D The Delivery just against acceptance (D/A) bill becomes clean bill immediately after the delivery of the documents. ≤

Hence, option (d) is the correct answer.

28. B Reverse repos are forward deals or agreements involving buying of a security with an undertaking to sell the same security at a predetermined price and time in future. Hence, statement (I), i.e. it involves a simultaneous buying and selling of same security is not true. The minimum maturity for repo transactions is 1 day. So, statement (III) is not true. As NBFCs are permitted to enter into both repo and reverse repo transactions. Statement (II) is true and therefore option (b) is correct alternative. ≤

29. C Market value of GOI securities = Rs.52 crore [≤](#)

(+) Interest accrued on the securities from May 1, 2008 to June 30, 2008

$$= \left(\frac{61}{360} \times 0.13 \times 50\right) = \text{Rs.}1.1014$$

crore

= Rs.53.1014 crore.

30. C The interest payable on premature withdrawal of public deposits is as under: [≤](#)

More than 3 months but up to 6 months	NIL
More than 6 months but up to 1 year	Not exceeding 10%
Above one year (12 months)	1% less than the rate of which the company would have paid if the deposit had been accepted for the period for which the deposit had actually run.

Rahul wants to withdraw his public deposit one year before the maturity. Therefore interest payable to him by Shriram Finance Company should not exceed 12%. Hence, option (c) is the correct answer.

31. B The maximum amount of brokerage payable for soliciting public deposits is as follows: [≤](#)

Tenure of the Deposit	Maximum Brokerage (%)
Up to 1 year	1.0
Between 1 and 2 years	1.5
Above 2 years	2.0

Hence for an 18-month public deposit of Rs.100000, the maximum brokerage that can be payable = 1.5% of Rs.100000 = Rs.1500. Hence, option (b) is the correct answer.

32. B According to the companies (Acceptance of Deposit) Rules, 1975, no deposit repayable on demand or on notice can be accepted by a company, a security deposit received from an employee cannot be termed as public deposit and the minimum tenure for which the public deposits can usually be accepted and renewed is 12 months.. Hence, only statement (III) is correct and option (b) is the answer. [≤](#)

33. E The Scheduled Commercial Banks, Cooperative Banks and Regional Rural Banks do accept deposits from general public as part of their normal banking activity. In order to protect the interest of the depositors, it was considered necessary to have the scheme of insuring the bank deposits. The scheme was originally undertaken by Deposit Insurance Corporation which was subsequently merged to become DICGC. As of now all banks have to take the insurance cover on the deposits accepted by them. [≤](#)

34. B Standard Policy is a risk cover offered by ECGC which is designed to cover risks with respect to goods which are exported on short-term credit not exceeding 180 days. So, the correct answer is option (b). [≤](#)

35. A Mr. Dubey is withdrawing his deposit at the end of the 11th month hence he will be given the interest for 11 months. Now as per Rule 8(1) of the Companies (Acceptance of Deposits) Rules, 1975 he will be given the interest at the rate of 10% because he is withdrawing the amount before one year. [≤](#)

Therefore the interest will be 3,50,000 * 0.10 *11/12 = 32,083 (approx)

Hence the total amount that is to be refunded is 3,50,000 + 32,083 = Rs.3,82,083.

36. C An order that allows the price to be specified while entering the order into the system is said to be Limit Price Order while an order to buy or sell securities at the best price obtainable at the time of entering the order is Market Price Order. Hence, option (I) and option (III) are said to be false. Thus option (c) is said to be the correct answer. ≤

37. C Revised value of base year market capitalization is ≤

$= 2.06 + \dfrac{1.240}{(31.08589/2.06)}$ = Rs.2.1422 trillion.

38. E The geometric mean will be ≤

$\left(\dfrac{130}{80} \times \dfrac{92}{60} \times \dfrac{65}{75} \times \dfrac{54}{50}\right) \times 100 = 233.22$

Therefore, option (e) is the correct answer.

39. D All schedule banks and banking subsidiaries can become members of OTCEI. Hence, statement (II) is false. All other statements are correct. ≤

Hence, option (d) is the correct answer.

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

- Non-compliance with listing norms.
- 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 not true.

Options (c), companies in B2 group trading volumes are low and they show poor profits is true. Therefore, option (c) is the correct answer.

41. B ≤

Option adjusted duration $= \dfrac{Price_{NCB}}{Price_{CB}} \times Dur_{NCB}(1 - Delta)$

$1.567 = (112/105.45) \times 4.5 \times (1 - Delta)$

$1.567 = 4.78(1 - Delta)$

$Delta = 0.672$

Therefore, option (b) is the correct answer.

42. D The price of the bond is ≤

= 37.5× $PVIFA_{(3\%, 30)}$ + 1000 × $PVIF_{(3\%, 30)}$

= 1147.02

Yield to call

1147.02 = 37.5 × $PVIFA_{(i\%,10)}$ + 1130 × $PVIF_{(i\%, 10)}$

i = 3.14%

Annually = 3.14 × 2 = 6.28%.

43. B Price of the bond at prevailing interest rate of 9% ≤

= 70 × PVIFA (9%, 5) + 1000 × PVIF (9%,5)

= 70 × 3.8897 + 1000 × 0.6499 = Rs.922.21

Price of the 7% coupon bond at prevailing interest rate of 7% = Rs.1000.00

Capital Gains = 1000 – 922.21 = Rs.77.79

44. D Let conversion rate be C, then <

Premium over conversion value

$$= \frac{Bond\,Price - Conversion\,Value}{Conversion\,Value} = \frac{200 - C\,x14}{C\,x14} = 19.05\%$$

- 200-14C = 2.667C
- 200 = 16.667C
- C = 11.99 i.e. 12.

45. D Volatility of a bond depends on its duration. If duration is greater, its volatility will also be maximum. There are five bonds with 5, 10 and 15-year maturities. Bonds with 15-year maturity period bear higher duration than bonds with 5 and 10-years maturity. Hence, options (a), (b), (c) and (e) are not correct. Again, larger the coupon rate, smaller the duration of bond and hence 15-year bond with 15% coupon will have lower duration than bonds with same maturity but with 10% coupon rate. Hence duration of 15-year, 10% bond will be greatest and hence would be experiencing maximum volatility. Therefore, option (d) is correct. <

46. E In the situation, given your short position you have profited from the price decrease. Therefore, option (e) is the correct answer. <

47. B Forwards are tailor made contracts which is used for hedging purposes and there are no physical location available for trading in forward contracts. Futures are standardized contracts in terms of quality, quantity and terms of delivery. Forward contracts are not standardized and terms are structured to meet the needs of both the contracting parties. A separate clearinghouse clears futures contracts whereas in forward contracts such facility is not available. <

48. B Cost of put <

= (Rs. 5 per share) × (100 shares per contract) × (6 contracts) = Rs.3000

Put's intrinsic value

= Striking price – Ending price = Rs. 45 – Rs.30 = Rs.15 per share

Total value at maturity

= (Rs.15 per share) × (100 shares) × (6 contracts) = Rs.9000

Net gain = Rs .9000 – Rs. 3000 = Rs.6000.

49. C The option will be exercised if market price is greater than the strike price. If market price is less than the strike price the option will not be exercised and the loss is equal to premium. <

Loss = 2,000 × 7.25 = Rs.14,500.

50. C **First Method:** <

Initial margin = Option premium + 0.20 (Stock's market price) – The amount by which option is out of money

= (1600 x 4) + (0.20 x 103 x 1600) – (7x1600)

= 6400 + 32960 + 11200 = Rs.28,160.

Second Method:

Initial margin = Option premium + 0.10 (Stock's market price)

= (1600 x 4) + (0.10 x 103 x 1600)

= 6400 + 16480 = Rs.22,880.

The higher f the above is Rs.28,160 per contract. For five contracts, margin to be deposited is Rs.28,160 x 5 = Rs.1,40,800.

51. E As the balance in the margin account is more than the maintenance margin, the amount required to be added to the margin account is nil. ≤

52. C In an in-the-money call option the exercise price is less than the current market price i.e., the option is having a positive intrinsic value and the buyer would make profit if the option is exercised today (in the case of an American option) on the present value of profit (in case of a European option). ≤

53. D The maximum possible gain per share when spot price exceeds strike price of Rs.55 is (50 – 45.5 + 2) = Rs.6.50. ≤

54. E Speculative investments are not carefully thought out decisions. They are based on rumors, hot tips, inside dopes and often simply on hunches. The risk assumed is disproportionate to the return expected from speculation. None of these transactions are speculative in nature. Therefore, option (e) is the correct answer. ≤

55. D 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 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 = $3.25 \times 1000 + 3 \times 0.65 \times 1000 = 3250 + 1950 = 5200$.

Hence the correct answer is option (d).

56. D Options are not traded in the OTC market in India. Listed stock options are adjusted for stock splits and stock dividends because it affects the terms of option contracts. Hence, statement (I) is correct. Options are employed by both hedgers and speculators, so statement (III) is also correct. In options, the buyer limits the downside risk to the extent of premium paid. Hence, statement (II) is not correct and hence, the option (d) is the answer. ≤

57. D The 'Contango' in a futures market refers to ≤

(i) When the futures prices are higher than cash prices and

(ii) When the basis is negetive.

The difference between the cash price and futures price of a commodity is referred to as 'basis'.

58. B ≤

$$\text{Conversion parity price of stock} = \frac{\text{Bond Price}}{\text{No. of shares on converstion per warrant}}$$

$$= \frac{100}{11} = \text{Rs.}9.09$$

59. B $\le$

$$\text{NAV} = \frac{\text{Value of Investments} + \text{Receivables} + \text{Accrued Income} + \text{Other current Assets} - \text{Liabilities} - \text{Accrued expenses}}{\text{Number of outstanding units}}$$

$$12.37 = \frac{1737.10 + 130.30 + 43.40 + 521.13 - 390.85 - 86.86}{\text{Number of outstanding units in crore}}$$

$$\text{No. of units} = \frac{1954.22}{12.37} = 157.98 \text{ crore.}$$

60. C The total payments required to be made to the bondholders consists of interet payments and contribution to the sinking fund. $\le$

Amount contributed to the sinking fund $= \dfrac{i}{(1+i)^n - 1} = \dfrac{0.11}{(1+0.11)^{12} - 1} = 0.0440$

Interest rate on the bonds = 0.11

Therefore, total payments for a bond

= 0.11 + 0.0440 = 0.1540 = 15.40%.

Therefore, capitalization rate for the property

= (0.60 x 0.1540) + (0.40 x 0.20) = 17.24%.

Market value of the property = 400000/0.1724 = Rs.2,320,186.

61. A $\le$

Property	Net Operating Income (p.a.) (Rs.)	Market Value (Rs.)	NOI/Market Value (%)
House No. 1	18,000	3,50,000	5.14%
House No. 2	20,000	3,65,000	5.48%
House No. 3	24,000	3,95,000	6.08%
House No. 4	28,000	4,20,000	6.67%

Now, (5.14 + 5.48 + 6.08 + 6.67)/4 = 5.84%

62. C In Band of Investment method, financing structure of the assets is considered for valuation purpose; statement (I) is false. In Built-up method, the illiquid nature of the assets is considered for valuation purpose; statement (II) is also false. In Market Extraction method, comparable property is selected to choose a rate which reflects market sentiments is true and hence, option (c) is the correct answer. $\le$

63. B $\le$

$$\text{Public offer price} = \frac{\text{NAV}}{1 - \text{Sales charge}}$$

$$1\text{- Sales charge} = \frac{13.25}{13.52}$$

1– Sales charge = 0.98

Sales charge = 1 – 0.98 = 0.02 = 2%.

64. B The shares of close-ended funds are not redeemable at their NAV, but these shares are traded in the secondary market at stock exchanges at market prices that may be above or below their NAV. ≤

Open-ended funds can sell unlimited number of shares and keep their fund growing.

Performance funds invest usually in companies with high price-earnings ratio and higher price volatility

Real estate fund is of close-ended type.

Specialized funds envisage specializing investment in securities of firms of certain industries or specific income producing securities. Such funds carry more risk for lack of diversification approach.

Hence (b) is the answer.

65. E The reasons for the current market price being less than the NAV can be as follows: ≤

I. Investors' doubt about the abilities of the fund's management.

II. Lack of sales effort.

III. Riskiness of the fund.

IV. Lack of marketability of the fund's units.

Therefore, option (e) is the correct answer.

66. D A real estate represents a very attractive investment proposition for the following reasons: ≤

i. Capital appreciation of real estate is, in general very high.

ii. Loans are available from various financial institutions/banks for buying or constructing real estate.

iii. Interest on loans taken for buying or constructing a residential home is tax deductible within certain limits.

iv. Ownership of a residential property provides psychological satisfaction.

Hence, options (a), (b), (c) and (e) are correct. However real estate are more illiquid and are not a reason for attractiveness and hence, alternative (d) is the answer.

67. A It is a non-security form of financial investment. Statement (I) is not true. ≤

The amount contributed to the PPF account is eligible for tax rebate and the facility of nomination is available in this scheme. Statements (II) and (III) are true.

Hence, option (a) is the answer.

68. B The risk which arises due to the changes in the value of option for a change in the price of securities underlying the option is known as Greeks risk. ≤

69. D The exchange rate after 2 years would be ≤

$$= 42.80 \text{ x } \left(\frac{1+0.079}{1+0.039}\right)^2 = Rs.46.16/\$$$

70. D $ / Euro ask rate is ≤

$$= (\$/Rs.)\ ask \times (Rs./Euro)\ ask$$

$$= \frac{1}{(Rs./\$)\ bid} x\ (Rs./Euro)\ ask$$

$$= \frac{1}{40.08} x\ 63.37 = 1.5811$$

Since the Indian company requires Euro in exchange of $, the $/Euro ask rate is to be quoted that is 1.5811.

71. E $1 = Rs.43 ≤

$$\frac{43\ (1.20)}{40.08/1} - 1 = 28.74\%$$

72. B ≤

$$(\$/Euro)_{bid} = (\$/£)_{bid} \times (£/Euro)_{bid}$$

$$= 1.5811 \times 0.7951$$

$$= 1.2571.$$

$$(\$/Euro)_{ask} = (\$/£)_{ask} \times (£/Euro)_{ask}$$

$$= 1.5815 \times 0.7954$$

$$= 1.2579.$$

73. B The annualized percentage premium ≤

$$= \frac{Forward(A/B)_{mid} - Spot(A/B)_{mid}}{Spot(A/B)_{mid}}$$

$$= \frac{\left(\frac{40.44 + 40.50}{2}\right) - \left(\frac{40.08 + 40.12}{2}\right)}{\left(\frac{40.08 + 40.12}{2}\right)}$$

$$= \frac{40.47 - 40.10}{40.10} \times \frac{12}{3} \times 100 = 3.69\%$$

74. A 31.12.2007 Rupee investment made by the investor US$ 2 million ≤

@Rs. 41.30 (20,00,000 X 41.30)	8,26,00,000
Rupee value of portfolio after 23% depreciation over value as on 31.12.2007 [(8,26,00,000) (1-0.23)]	6,36,02,000
Re-conversion of rupee investment into dollars @Rs.44.75/$ (6,36,02,000/ 40.12)	$15,85,294.12
Net increase over the original investment is [(15,85,294.12) - (20,00,000)]	($4,14,705.88)

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