Question Paper
Financial Markets (CFA550): April 2008

- **Answer all 75 questions.**
- **Marks are indicated against each question.**

Total Marks : 100

<Answer>

1. Which of the following statements is/are **true** with respect to the credit function of the Indian financial system?

I. It involves mobilizing of savings in a way to provide potential profit and low risk outlet.
II. It ensures a smooth flow of funds from savings into investments in order to stabilize the economy.
III. It ensures the transformation of savings to necessary credit for investment and spending purposes.

(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>

2. Which of the following markets is/are **not** regulated by RBI?

I. Money Market.
II. Capital Market.
III. Forex Market.
IV. Credit Market.

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

<Answer>

3. Which of the following statements is **false** with respect to Corporate Fixed Deposits?

(a) Corporate Fixed Deposits have a higher degree of default risk than bank deposits
(b) Corporate Fixed Deposits do not enjoy risk cover from Deposit Insurance Corporation
(c) Corporate Fixed Deposits are unsecured
(d) Disclosure of the information relating to financial performance and position is purely at the discretion of the company
(e) At the time of repayment due to liquidation, corporate fixed deposits are ranked pari passu with other unsecured liabilities. **(1 mark)**

<Answer>

4. Which of the following statements is **not true** with respect to Treasury Bills?

(a) Treasury Bills are issued to meet short term requirements of Government
(b) Treasury Bills enable the RBI to perform Open Market Operations
(c) Investors prefer Treasury Bills because of high liquidity and assured returns
(d) Treasury Bills are eligible for meeting CRR requirements
(e) Treasury Bills are issued at discount and redeemed at par. **(1 mark)**

<Answer>

5. Which of the following transactions is an example of transactions in an open market?

(a) A bought out deal
(b) A car loan
(c) Public issue of securities
(d) Housing finance
(e) Private placement. **(1 mark)**

<Answer>

6. Which of the following statements is/are **true**, with respect to Open Market Operations (OMOs) by RBI?

I. Open market purchase of guilts by RBI will ease the liquidity of banks; the open market sale of the same will suck their liquidity.

II. To pull down the interest rates, RBI can set the prices of securities at higher levels in the OMO.

III. RBI can also alter the interest rate structure using the OMOs.

(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. Prime Ltd. wants to roll over its non convertible portion of Partly Convertible Debentures. Within how many month(s) prior to the date of redemption, the company will have to obtain fresh credit rating?

(a) 1 month
(b) 2 months
(c) 3 months
(d) 6 months
(e) 9 months. **(1 mark)**

<Answer>

8. To promote the investment activity in the Government Securities market, several countries have adopted licensed Primary Dealers (PDs) as important intermediaries in the market. Which of the following statements is **not true** with respect to the PDs?

(a) They are responsible for meeting the minimum bidding requirements
(b) They are responsible for giving two-way quotes
(c) They are responsible for providing information of the market activity to the central bank
(d) They have an important role to play in the development of secondary market for the Government Securities
(e) The specific objective of PDs is to promote retail investment. **(1 mark)**

<Answer>

9. The required amount of successful bids by a primary dealer who participated in the bidding for Treasury Bill is Rs.540 crore. The commitment to aggregate bidding would have been

(a) Rs 2,200 crore
(b) Rs 2,050 crore
(c) Rs 2,000 crore
(d) Rs 1,620 crore
(e) Rs 1,350 crore. **(1 mark)**

<Answer>

10. Shaina purchased a commercial paper of Sterling Inc., issued for 90 days in the market for Rs.9,84,840. Company issued the commercial paper with a face value of Rs.10,00,000. The rate of return which Shaina earns is

(a) 6.00%
(b) 6.15%
(c) 6.24%
(d) 6.56%
(e) 7.05%. **(1 mark)**

<Answer>

11. Which of the following statements is **true** with respect to Commercial Papers?

(a) Only listed companies are eligible to issue commercial paper
(b) The minimum maturity period of commercial paper is thirty days
(c) A company issuing commercial paper should acquire a minimum credit rating of P-2 from CRISIL
(d) A single investor willing to invest in commercial paper market needs to invest Rs.50 lakh as minimum investment
(e) Individual investors are not allowed to invest in commercial paper. **(1 mark)**

12. Which of the following statements is **true** with respect to Thrift CDs? <Answer>

(a) They are issued by foreign banks in US
(b) They are issued by savings and loan associations in denominations of $1,00,000 so that they can be covered under the Federal Deposit Insurance Corporation
(c) Their returns are linked to stock market performance
(d) They are sold through brokers or dealers in denominations of $1,00,000 to qualify for federal deposit insurance
(e) They offer a return linked to fluctuations in foreign currency values and economic development abroad. **(1 mark)**

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

(a) A very tight liquidity position will usually increase the call rates while excess liquidity will give fairly low and stable rates
(b) If the liquidity crunch of the banks is passed on to the system, it may lead to high volatility in the call rates
(c) Call rates under normal liquidity conditions are the cap rates for the term money market
(d) In a volatile call market situation, lending will usually return high yields and by selling Inter-Bank Participations, the bank will have more money to play in the call market
(e) The floor rate for CDs is fixed by short term deposit rates and the ceiling for CDs is set by CPs. **(1 mark)**

14. Which of the following statements is **not true** regarding various types of bills of exchange? <Answer>

(a) Bill which is payable at a specified later date is called a usance bill
(b) Bill accepted by the drawee to accommodate the drawer without having received any consideration is called an accommodation bill
(c) Bill drawn in India and made payable outside India can be called a foreign bill
(d) Bill accompanied by the documents of title to goods such as lorry receipt or bill of lading is called a clean bill
(e) Bill which arises out of supply of goods by manufacturing concerns is called a supply bill. **(1 mark)**

15. Which of the following statements is/are **not true** with respect to Government dated securities? <Answer>

I. These securities are issued at discount.
II. The NRIs, overseas corporate bodies and Foreign Institutional Investors registered with SEBI are also eligible to invest in government securities.
III. These securities provide higher liquidity.

(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)**

16. Common Wealth Bank issued 1000 Commercial Papers for a period of 10 months having the face value of Rs.1,00,000 at Rs.98,000 each. The stamp duty payable by the bank on such issue is <Answer>

(a) Rs.1,50,000
(b) Rs.1,96,000
(c) Rs.2,00,000
(d) Rs.2,20,000
(e) Rs.2,25,000. **(2marks)**

17. Standard Bank issued 1000 Certificate of Deposits for a period of 8 months with a face value of Rs.1,00,000 each. The stamp duty payable by the bank on such issue is <Answer>

(a) Rs.1,25,000
(b) Rs.2,50,000
(c) Rs.3,25,000
(d) Rs.3,75,000
(e) Rs.5,00,000. **(2marks)**

18. The commitments for aggregative bidding for Auction T-Bills of 4 Primary Dealers are as follows: <Answer>

(Rs. in crore)

Particulars	TCS Ltd.	PLN Ltd.	KLN Ltd.	ABN Ltd.
Auction of T - Bills	800	1000	2300	1800
Tendered	900	700	2350	1900
Accepted	350	225	975	700

Which of the PDs have adhered to the commitment on aggressive bidding and achieved the required amount of successful bids?

(a) TCS Ltd.
(b) PLN Ltd.
(c) TCS Ltd. and PLN Ltd.
(d) PLN Ltd. and KLN Ltd.
(e) TCS Ltd. and KLN Ltd. **(3marks)**

19. T-Bills are issued for a minimum of __ days and a maximum of __ days. <Answer>

(a) 14 and 28
(b) 14 and 91
(c) 14 and 182
(d) 14 and 364
(e) 14 and 365. **(2marks)**

20. Which of the following statements is/are **true** with respect to debt markets in India? <Answer>

I. In case of floating rate bonds, the stock will carry a coupon rate which will vary according to the changes in the base rate to which it is related.

II. No interest is paid on zero coupon bonds before maturity.

III. When the RBI undertakes REPO transactions, it will buy the securities in the first leg and sell them back later.

(a) Only (II) 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)**

21. Which of the following statements is **not true** with respect to repo? <Answer>

(a) The amount of activity in the repo market will increase the turnover of the money market, resulting in an enhanced liquidity and depth in the market
(b) As a tool of financing, the repos would cause an increase in the turnover in the debt market
(c) Repo enables the traders to take convenient positions to go short or long in the market, which results in increased activity of the debt market
(d) Institutions and corporate always see repos as expensive way of financing
(e) Repo is also useful to the Central Bank in the way they can use them as a part of their open market operations, to maintain the liquidity of the markets. **(1 mark)**

22. Who among the following are **not** eligible to participate in REPO transactions? <Answer>

(a) Banks
(b) State Government
(c) Financial institutions
(d) Mutual Funds
(e) Discount and Finance House of India Ltd. **(1 mark)**

23. Bank of India proposed to borrow on 18th March 2008 an amount of Rs.1 crore from Canara bank under repo for a period of 14 days at an interest rate of 10% p.a. The security for this transaction is 8.5% CG2017. The following information is related to the security: <Answer>

Interest payments are due on : 30th June and 30th December

Current price of the security : Rs.98.90

Amount of interest to be paid by BOI to Canara bank on the borrowing is

(a) Rs.38,600.30
(b) Rs.38,610.97
(c) Rs.38,640.64
(d) Rs.38,652.00
(e) Rs.38,665.50. **(2marks)**

24. Which of the following statements is/are **false** with respect to Public Deposits? <Answer>

I. Payment of brokerage on public deposits is on a one-time basis.

II. The total amount of public deposits that can be outstanding at any point of time cannot exceed 25% of the aggregate of paid up capital and free reserves.

III. A company accepting public deposits is required to maintain liquid assets to the extent of 10% of the deposits maturing during the financial year ending 31st March.

(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)**

25. Which of the following statements is **false** with respect to the insurance of deposits? <Answer>

(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)**

26. Following is the list of various depositors and their deposits with the Barclays Bank; <Answer>

Name of depositor	Joint account holder	Savings Account (Rs)	Current Account (Rs)	Fixed Deposits (Rs)
Saurav	–	10,500	–	1,00,000
Saurav	Resham	22,000	65,000	56,000
Vikas	–	10,000	–	1,05,500
Nandu	–	15,000	60,000	10,000
Ashish	Anuradha	32,000	53,000	–
Ashish	–	7,000	–	83,000

The half-yearly insurance premium payable by the Barclays Bank to insure these deposits as per DICGC guidelines is

(a) Rs.125.00
(b) Rs.132.00
(c) Rs.140.00
(d) Rs.146.00
(e) Rs.148.50. **(3marks)**

27. Which of the following risks **is not** covered by Export Credit and Guarantee Corporation? <Answer>

(a) Insolvency of the buyer
(b) War, civil war, revolution or civil disturbance in the buyer's country
(c) Fluctuation in the exchange rate
(d) Cancellation of valid import license
(e) Imposition of restrictions by the Government of the buyer's country. **(1 mark)**

28. A T-bill maturing after 'n' days can be purchased from the market at the current price of Rs.94.64. On maturity, the annualized yield to the investor will be 5.68%. The value of n is <Answer>

(a) 14 days
(b) 91 days
(c) 182 days
(d) 364 days
(e) 365 days. **(1 mark)**

29. Financial markets have witnessed remarkable changes in the nature of transactions, the types of participants, the magnitude of operations and various different characteristics. And depending on the differing requirements various sub-markets have developed. With respect to these sub-markets, which of the following statements is **not true**? <Answer>

(a) The capital market is aimed at financing the long term investments and the transaction taking place in this market will be for periods over a year
(b) The money market is a wholesale debt market for a low risk, highly liquid short term instruments having the maturity ranging from one month to a year
(c) The forex market deals with the multicurrency requirements which are met by the exchange of currencies
(d) Credit market is a place where banks, FIs and NBFCs purvey loans to corporate and individuals
(e) The Reserve Bank of India is the regulator of the money market. **(1 mark)**

30. Which of the following is/are the objective(s) of International Organization of Security Commissions (IOSCO)? <Answer>

I. Co-operating and promoting high standards of regulation in order to maintain just, efficient and sound markets.

II. Exchanging information on their respective experiences in order to promote the development of domestic markets.

III. Providing mutual assistance to promote the integrity of the markets.

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

31. The security market indices are useful for different purposes. With respect to this, which of the following statements is/are **not true**? <Answer>

(a) Security market indices are the basic tools to help and analyze the movements of prices of various stocks listed in stock exchanges
(b) The growth in the secondary market can be measured through the movement of indices
(c) Indices can be calculated company-wise to know their trend pattern and also for comparative purposes across the industries and with the market indices
(d) The investors can make their investment decisions accordingly by estimating the realized rate of return on the index between two dates
(e) Funds can be allocated more rationally between stocks with knowledge of the relationship of prices of individual stocks with the movements in the market indices. **(1 mark)**

32. Private placement of securities is one of the most popular avenues of raising capital. Private placement is a method of raising capital in which companies directly sell their securities to a limited number of "sophisticated and discerning" investors. Which of the following is the feature of private placement? <Answer>

(a) There are high entry barriers for the private placement market
(b) There is no need for registration of the offer document with SEBI
(c) The terms of the issue can not be negotiated between the issuers and the investors
(d) The transaction costs are very high
(e) Credit rating is mandatory in case of debt instruments. **(1 mark)**

33. Consider the following data of Spice Air Ltd.: <Answer>

Paid-up equity capital (10,00,000 shares of Rs.10 each)	Rs.1,00,00,000
Profit after tax	Rs.78,00,000

The P/E ratio of the company is 10. The company proposes for a right issue of 2,00,000 shares at the subscription price of Rs.20 each. The value per share after the right issue is expected to be

(a) Rs.63.33
(b) Rs.66.33
(c) Rs.68.33
(d) Rs.72.00
(e) Rs.73.33. **(3marks)**

34. Hawks Ltd. is planning a rights issue of equity shares. The current market price of the share is Rs.40 and the rights issue can be priced at 80% of the current market price. If the ex-rights price should not fall below Rs.35, the maximum number of rights shares, the company can offer for every share held is <Answer>

(a) 0.40
(b) 0.60
(c) 0.80
(d) 1.00
(e) 1.67. **(2marks)**

35. Which of the following statements is/are **true** with respect to the rights of an investor in a mutual fund scheme? <Answer>

I. To receive the share certificates within a period of six weeks from the date of closure of subscription.
II. To get the units transferred to his name within a period of thirty days from the date of submitting the certificates of transfer.
III. To receive the information regarding the NAV at intervals not exceeding one week.

(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)**

36. Which of the following statements is/are **true** with respect to balanced mutual funds? <Answer>

I. They have moderate risk component.
II. They have above average growth potential.
III. The safety of principle amount is assured.

(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)**

37. Which of the following statements is **not true** regarding the value of the warrant? <Answer>

(a) Intrinsic value is the minimum value of the warrant
(b) The maximum value of the warrant is equal to the product of the current market price of the stock and the number of shares obtained from warrant
(c) The minimum value of the warrant is zero when the current market price is more than the exercise price
(d) The minimum value of the warrant should not exceed the market price of the stock to avoid arbitrage opportunities
(e) Warrant premium is the difference between the warrant price and the minimum price of the warrant. **(1 mark)**

38. A company has issued warrants which entitle the investors to purchase 100 shares of the company at Rs.65 each. The current market price of the stock is Rs.40 per share and the warrants are trading at Rs.20 each. The warrant premium is <Answer>

(a) Rs.20
(b) Rs.25
(c) Rs.40
(d) Rs.50
(e) Rs.60. **(1 mark)**

39. Which of the following statements are **true** with respect to Option-Adjusted-Spread (OAS)? **<Answer>**

I. It is a measure of the yield spread, which can be used to convert differences between the values and the prices.

II. It is used as a tool to reconcile value with market price.

III. The higher the expected interest rate volatility, the higher the OAS.

IV. As the cash flows of the callable bond are adjusted to reflect the embedded option, the resulting spread is called option adjusted spread.

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

40. A convertible bond with a face value of Rs.1,000 had been issued with a coupon rate of 10%. The conversion rate is 20 shares per bond. The current market price of the bond is Rs.1,300 and that of stock is Rs.55. The premium over conversion value is **<Answer>**

(a) 9.09%
(b) 18.18%
(c) 20.00%
(d) 23.15%
(e) 30.00%. **(2marks)**

41. Stock of Zenion Ltd. has conversion parity price of Rs.35.50. If the number of shares on conversion per warrant is 25, the bond price is **<Answer>**

(a) Rs.887.50
(b) Rs.758.36
(c) Rs.658.45
(d) Rs.528.11
(e) Rs.358.24. **(1 mark)**

42. The implied price of a non-callable bond is Rs.216 and the observed price of a callable bond is Rs.210.50. Duration of the non-callable bond is 6.5 years. If the delta of the call option is 0.573, the option-adjusted duration is **<Answer>**

(a) 1.63
(b) 2.85
(c) 3.41
(d) 4.12
(e) 5.63. **(1 mark)**

43. You own government bonds with a face value of Rs.20 lakh. The bonds have remaining term to maturity of 6 years and 3 months from today and have a coupon rate of 7%, payable semi-annually. The next coupon will be paid in three months from now. Currently the yield to maturity of these bonds is 6% p.a. compounded semi-annually. The worth of the bonds today is **<Answer>**

(a) Rs.21.06 lakh
(b) Rs.21.38 lakh
(c) Rs.22.16 lakh
(d) Rs.23.76 lakh
(e) Rs.24.16 lakh. **(2marks)**

44. The convexity measures the sensitivity of **<Answer>**

(a) Bond price to interest changes
(b) Duration to interest rate changes
(c) Duration to changes in terms of maturity
(d) Duration to changes in compounding periodicity
(e) YTM of a bond to its market price. **(1 mark)**

<Answer>

45. Which of the following statements is/are **true** with respect to a callable bond?

I. Callable bond involves two transactions – purchase of a non-callable bond and a sale of a call option.

II. In the case of callable bond, the cash flow does change with the interest rates.

III. A bond becomes callable only when the prevailing market yield is more than the coupon rate on comparable bond.

IV. A callable bond is a convertible bond with a favorable feature of call option available to the issuer.

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

<Answer>

46. A convertible bond issued by Marwan Industries has par value of Rs.1,000 with a coupon rate of 8.5% and maturity of 5 years. The shares of the company are trading at Rs.19 each. The dividend paid by the company on the shares is Re.0.85 per share. If the conversion rate is 45 and each bond of the company is trading at Rs.970, the pay back period is

(a) 2.46 years
(b) 2.80 years
(c) 3.33 years
(d) 3.75 years
(e) 4.22 years. **(2marks)**

<Answer>

47. Which of the following Floating Rate Notes (FRNs) are issued for longer terms with variable interest spreads with margins over LIBOR going up for later maturities?

(a) Flip-flop FRNs
(b) Mismatch FRNs
(c) Perpetual FRNs
(d) Structured FRNs
(e) Capped FRNs. **(1 mark)**

<Answer>

48. British Bank of Middle East, Mumbai sold spot US$1 million to Deutsche Bank AG, Hamburg on 27th March, 2008 Thursday. The settlement date for the spot transaction done is

(a) 27st March, 2008
(b) 28th March, 2008
(c) 29th March, 2008
(d) 30th March, 2008
(e) 31st March, 2008. **(1 mark)**

<Answer>

49. A quote is called as American quote, if the exchange rate is expressed

(a) In terms of number of units of any other currency per unit of US dollar
(b) In terms of US dollars per unit of any other currency
(c) In terms of number of units of any other currency per unit of British pound
(d) In terms of number of units of any other currency per unit of any other currency excluding British pound
(e) In terms of number of units of any other currency per unit of euro. **(1 mark)**

<Answer>

50. The following spot rates are quoted in the New York market:

$/€ : 1.3650/56

DKr/$: 5.0955/62

The DKr/€ spot rate should be

(a) 3.7318/3.7330
(b) 4.2240/4.2256
(c) 6.8440/6.8462
(d) 6.9554/6.9594
(e) 7.0060/7.0084. **(1 mark)**

51. Currently £ is trading at the rate of \$1.9512. The interest on £ bonds is 5% p.a. £ is expected to trade at \$1.9580 after a year. If a US investor invests \$10,000 in £ bonds for a period of one year, his return on investment is <Answer>

(a) 5.81%
(b) 5.74%
(c) 5.37%
(d) 5.00%
(e) 4.64%. **(2marks)**

52. Consider the following rates: <Answer>

Rs./\$	Spot	39.49/39.50
3 months forward premium		15/17

The annualized premium of dollar for 3 months will be

(a) 1.38%
(b) 1.44%
(c) 1.62%
(d) 1.75%
(e) 1.90%. **(1 mark)**

53. The following are the exchange rates quoted in New York: <Answer>

CHF/\$	1.0948 / 1.2350
Aus \$/\$	1.1216 / 1.1220

The synthetic quotes of Swiss Franc per Australian Dollar are

(a) CHF / Aus \$ 0.9740 / 0.9744
(b) CHF / Aus \$ 0.9762 / 0.9768
(c) CHF / Aus \$ 0.9758 / 1.1011
(d) CHF / Aus \$ 1.1011 / 1.1021
(e) CHF / Aus \$ 1.1016 / 1.1024. **(1 mark)**

54. The market rates are as under: <Answer>

Euro/USD	=	0.6472/75
3-month forward	=	20/15
4-month forward	=	30/20

What should be the rate quoted to an American exporter, who wants to have an option delivery in the fourth month?

(a) 0.6452
(b) 0.6460
(c) 0.6442
(d) 0.6455
(e) 0.6475. **(2marks)**

55. An export customer who relied on the inter bank rate of Rs./\$ 39.52/54 has requested his banker to purchase a bill for USD 100,000. What is the rate to be quoted to the customer, if the banker wants a margin of 0.10%? <Answer>

(a) Rs.39.22
(b) Rs.39.36
(c) Rs.39.48
(d) Rs.39.52
(e) Rs.39.60. **(2marks)**

56. Which of the following will **not** cause a change in the bid-ask spread? <Answer>

(a) High market volatility
(b) Trading volume
(c) Decrease in forward maturity
(d) Market downturn
(e) Increase in forward maturity. **(1 mark)**

57. Consider the following data of Omega Mutual Fund (Income plan): <Answer>

	(Rs.in million)
Value of investments	2874.20
Receivables	180.80
Accrued income	163.45
Other current assets	481.52
Liabilities	390.86
Accrued expenses	84.86

Number of outstanding units is 200 million. Entry load and exit load applicable to this scheme are 1.5% and 2.5% respectively. If the investor sells his units, the per unit price he will get is

(a) Rs.19.76
(b) Rs.17.36
(c) Rs.17.26
(d) Rs.15.72
(e) Rs.15.54. **(2marks)**

58. Which of the following is **not** a benefit of mutual fund? <Answer>

(a) Diversified investment
(b) Tax benefit
(c) Tension free investment
(d) Revolving type of investment
(e) Assured return. **(1 mark)**

59. Which of the following statements is **not true** with respect to the mutual funds? <Answer>

(a) Net Asset Value (NAV) represents the fair value of a unit of a mutual fund scheme
(b) The units of closed-ended funds are generally not redeemable at their NAV
(c) The NAV and the price at which the units of mutual funds are traded in secondary market are not the same
(d) Open-ended mutual fund companies buy and sell units at their NAV
(e) Closed-ended funds channelize funds in secondary market in acquisition of corporate securities. **(1 mark)**

60. Which of the following principles of Real Estate Appraisal is/are **true**? <Answer>

I. According to the Principle of Substitution, a rational owner will try to gain the maximum out of the resources he has.

II. According to the Principle of Change, price is function of demand and supply and the value of property fluctuates with price.

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.

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

61. Given below is the data regarding five similar residential properties: <Answer>

Property	Net Operating Income (NOI) (Rs.)	Market value (Rs.)
A	40,000	6,90,000
B	36,000	6,60,000
C	42,000	7,00,000
D	38,000	6,70,000
E	45,000	7,30,000

If the market extraction method is used to derive the capitalization rate, the market value of a similar property whose NOI is Rs.55,000 is

(a) Rs. 8,57,558
(b) Rs. 9,45,667
(c) Rs. 9,89,445
(d) Rs.10,45,557
(e) Rs.10,54,667. **(3marks)**

62. Which of the following statements is/are **true** with respect to “market extraction method” to derive the capitalization rate of real assets? **<Answer>**

I. In this method, net operating income is divided by sales price to get the capitalization rate.

II. In this method, the rates on equity as well as debt financing rates are weighted according to their proportions to calculate the capitalization rate.

III. In this method, the capitalization rate is the sum of the return required on an asset for its being non-liquid, and the risk free rate.

IV. In this method, comparable property is selected to choose a rate which reflects market sentiments.

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

63. Construction of a building is financed by issuing debt and equity in the ratio of 3:2 respectively. The debt consists of 10% bond having maturity period of 10 years. Interest will be compounded annually. The required rate of return on the equity is 20%. To redeem the bonds, a sinking fund is established. The capitalization rate as per band of investment method is **<Answer>**

(a) 06.27%
(b) 16.27%
(c) 17.76%
(d) 18.42%
(e) 19.00%. **(3marks)**

64. The qualitative factors affecting the value of real assets may be classified into macro and micro factors. Which of the following is a micro factor? **<Answer>**

(a) Location
(b) Business cycle
(c) Interest Rates
(d) Population Demographics
(e) Taste and preferences for real estate. **(1 mark)**

65. 60 years old, Mr. Sharma is a retired employee of Union bank and his pensionable year of service is 38 years. His last 10 months average monthly salary is Rs.30,000. The monthly pension that he recieves under Employees Pension Scheme (EPS) is **<Answer>**

(a) Rs.15,500
(b) Rs.15,571
(c) Rs.16,214
(d) Rs.17,143
(e) Rs.17,652. **(2marks)**

66. Which of the following statements is/are **false** with respect to Hedge Fund strategies? **<Answer>**

I. Equity market neutral strategy employs a growth or value approach to investing in equities without minimizing systematic risk.

II. High yield strategy is to purchase and maintain long position in the securities acquired and expect to redeem them at higher prices.

III. Convertible arbitrage strategy profits by a long position on the convertible securities and short position on the underlying company stock.

(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>

67. Which of the following is/are **true** with respect to a futures contract on a commodity?

I. The minimum price fluctuation is not specified in a futures contract, it is dependent on a particular day's trading quotes.

II. Trading on a futures contract normally ceases a few days before the last day on which the delivery can be made.

III. The main function of the futures market is to transfer price risk from speculators to hedgers.

(a) Only (II) 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)**

<Answer>

68. International commodity Identification Number (ICIN), is the unique code allotted by depository. Which of the following is **not** a parameter for generating ICIN?

(a) Price of commodity
(b) Type of commodity
(c) Warehouse location
(d) Grade/Fineness of the commodity
(e) Validity date of the commodity. **(1 mark)**

<Answer>

69. 'Basis' for the commodity futures is/are

I. Current cash price minus futures price.
II. Futures price minus current cash price.
III. Higher for contracts with shorter maturity.
IV. Higher for contracts with longer maturity.

(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)**

<Answer>

70. The average daily price change is Rs.18 per ounce and the standard deviation of the price change is Rs.3.50. The contract is for 100 ounce. The initial margin for the futures contract would be

(a) Rs.2,750
(b) Rs.2,850
(c) Rs.2,950
(d) Rs.3,050
(e) Rs.3,150. **(2marks)**

<Answer>

71. What will be the optimal stock index futures hedge ratio, if the portfolio is worth Rs.2,400,000, its beta is 1.15 and the nifty futures price is 4500.70 with a multiplier of 50?

(a) 10.65
(b) 12.26
(c) 15.84
(d) 17.23
(e) 18.56. **(1 mark)**

<Answer>

72. Selling stock short and simultaneously buying a call is similar to

(a) Writing a naked call
(b) Writing a naked put
(c) Buying a put
(d) Buying two calls
(e) Buying asset. **(1 mark)**

<Answer>

73. An investor has taken long position in Satyam stock for Rs.6,00,000. The beta of the stock is 1.2. To hedge his position against the market movements, he would

(a) Short on Satyam's stock futures for Rs.4,00,000
(b) Short on Satyam's stock futures for Rs.5,00,000
(c) Long on Satyam's stock futures for Rs.5,00,000
(d) Short on Satyam's stock futures for Rs.7,20,000
(e) Long on Satyam's stock futures for Rs.7,20,000. **(1 mark)**

<Answer>

74. Mr. Sahil writes a naked call option on Mahanagar Tele stocks at a premium of Rs.5. The current market price of the stock is Rs.124 and the exercise price is Rs.120. If the contract size is 1600 shares, the margin to be deposited by Mr. Sahil is

(a) Rs. 6,400
(b) Rs. 8,000
(c) Rs.44,480
(d) Rs.46,580
(e) Rs.47,680. **(2marks)**

<Answer>

75. A currency swap can be viewed as a combination of

I. One spot position and one futures contract.

II. One spot position and one forward contract.

III. One futures contract position and one forward contract.

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

END OF QUESTION PAPER

Suggested Answers
Financial Markets (CFA550): April 2008

	ANSWER	REASON	
1.	C	The role of financial system can be broadly classified into the following: Savings Function: Financial systems mobilize savings in a way to provide a potentially profitable and low risk outlet. Policy Function: Through the policy function, the government ensures a smooth flow of funds from savings into investments in order to stabilize the economy. Credit Function: Here, the financial sysytem ensures the transformation of savings to necessary credit for investment and spending purposes.	≤
2.	A	Money Market, Forex Market and Credit Market are regulated by RBI and Capital market is regulated by SEBI.	≤
3.	D	The company inviting public deposits must disclose the information relating to financial performance and position. All other statements are correct for Corporate Fixed Deposits. Hence, option (d) is correct.	≤
4.	D	Treasury bills are eligible for meeting SLR requirement not CRR. All other options are correct.	≤
5.	C	A bought out deal, a car loan, housing finance and private placement all are the examples of negotiated market. Only public issue of securities is the example of open market. Hence option (c) is the correct answer.	≤
6.	E	Open market purchase of guilts by RBI will ease the liquidity of banks; the open market sale of the same will suck their liquidity. To pull down the interest rates RBI can set the prices of securities at higher levels in the OMO. RBI can also alter the interest rate structure using the OMOs. Hence all the statements are true. So the option (e) is correct.	≤
7.	D	If the issuer wants to roll over its non convertible portion of PCDs, he will have to obtain fresh credit rating within the period of 6 months prior to the date of redemption.	≤

8. E Primary Dealers (PDs) are responsible for meeting the minimum bidding requirements. ≤

They are responsible for giving two-way quotes.

They are responsible for providing information of the market activity to the central bank.

They have an important role to play in the development of secondary market for the Government Securities.

The specific objective of Satellite Dealers (SD) is to promote retail investment; therefore option (e) is not true.

9. E The minimum success ratio for the PD's should be 40% for Treasury Bill. ≤

Hence, the commitment to aggregate bidding = 540/0.4 = Rs 1,350 crore.

10. C Rate of return = [(1000000-984840)/98484] x 365/90 = 6.24% ≤

11. C Commercial Papers can be issued by individuals, banking companies and other corporate bodies registered or incorporated and also by NRI's and FFI's who are not incorporated. ≤

The minimum credit rating is P2 of CRISIL or an equivalent rating by other agencies.

The minimum maturity period of commercial paper is fifteen days and maximum of one year.

A single investor willing to invest in CP market needs to invest Rs.5 lakh as minimum investment.

Individual investors are allowed to invest in commercial paper.

Therefore, option (c) is correct.

12. B Yankee CDs are issued by foreign banks in US. ≤

Thrift CDs are issued by savings and loan associations in denominations of $1,00,000 so that they can be covered under the FDIC.

Return on bear and bull CDs are linked to stock market performance.

Brokered CDs are sold through brokers or dealers in denominations of $1,00,000 to qualify for federal deposit insurance.

Foreign-Index CDs offers a return linked to fluctuations in foreign currency values and economic development abroad.

Hence, option (b) is correct.

13. C A very tight liquidity position will increase the call rates while excess liquidity will give fairly low and stable rates ≤

If the liquidity crunch of the banks is passed on to the system, it may lead to high volatility in the call rates

Call rates under normal liquidity conditions are the floor rate for the term money market

In a volatile call market situation, lending will return high yields, and by selling Inter-Bank Participations, the bank will have more money to play in the call market

The floor rate for CDs is fixed by short term deposit rates and the ceiling for CDs is set by CPs.

Hence (c) is the correct answer.

14. D Bill which is accompanied by documents of title to goods such as railway receipt/lorry receipt/bill of lading is called a documentary bill. Bill which is not accompanied by any such documents of title of goods is called a clean bill. Therefore, statement (d) is false. ≤

15. A The government-dated securities are not issued at discount. They carry coupon rate. All other statements are correct for government-dated securities. ≤

16. C The stamp duty payable on CP for maturity above 9 months up to 12 months is Rs.2 per Rs.1000 on the face value of the CP. ≤

Stamp duty = 1000 x100000 x 2/1000 = Rs.2,00,000

17. D The stamp duty payable on CD for maturity above 6 months up to 9 months is Rs.3.75 per Rs.1000 on the face value of the CD. ≤

Hence, the stamp duty payable = 1000*100000 x 3.75/1000 = Rs.3,75,000

18. E The success ratio to be maintained by PD's in auction T-bills = 40% ≤

(Rs. In crore)

	TCS Ltd	PLN Ltd	KLN LTD	ABN Ltd
Commitment*40%	320	400	920	720

Adherence to Commitments								
	Tendered		Commitments	Adhered	Bids		Required Commitment	Adhered
				(Y/N)	Accepted			(Y/N)
TCS Ltd	900	>	800	Y	350	>	320	Y
PLN Ltd	700	<	1000	N	225	<	400	N
KLN LTD	2350	>	2300	Y	975	>	920	Y
ABN Ltd	1900	>	1800	Y	700	<	720	N

Here, PLN Ltd and ABN Ltd did not adhere to the commitment on aggressive bidding.

19. D T-Bills are issued for a minimum of 14 days and a maximum of 364 days. ≤

20. E Floating rate bonds will carry a coupon rate which will vary according to the changes in the base rate to which it is related. Zero-coupon bonds are issued at discount and redeemed at par, thus implying no payment of interest till maturity. In Repo transactions, RBI will buy the securities in the first leg and sell them back. Hence, all the statements are true. So option (e) is correct. ≤

21. D Institutions and corporate see repos an inexpensive way of financing and can borrow and invest at market rates. Therefore, option (d) is false. ≤

22. B Banks, DFHL, Financial institutions and other non bank entities including mutual funds holding both current and SGL account with the RBI Mumbai, can participate in REPO transaction. ≤

23. C ≤

(Amount in Rs.)

Value of security	98,90,000
Interest for the period 31st December to 17th March (78 days)	1,84,166.67
Actual amount borrowed will , therefore be	100,74,166.67
Since the contract envisage payment of interest on the borrowing at 10% for 14 days the interest is 100,74,166.67x 0.10 x 14/365	
Total amount to be paid by BOI to Canara bank	38640.64

24. C A company accepting public deposits is required to maintain liquid assets to the extent of 15% of the deposits maturing during the financial year. The amount held in liquid assets shall not at any point of time fall below 10% of the amount of outstanding deposits maturing before 31st March next. ≤

25. 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. ≤

26. C ≤

Name of depositor	Joint account holder	Maximum amount insured
Saurav	–	1,00,000
Saurav	Resham	1,00,000
Vikas	–	1,00,000
Nandu	–	85,000
Ashish	Anuradha	85,000
Ashish	–	90,000
Total		5,60,000

Hence the insurance premium payable is 5,60,000 x 0.025/100 = Rs.140.00

27. C ECGC does not cover the risk of exchange rate fluctuation. ≤

Hence, option (c) is correct.

28. D The value of n can be calculated as follows: ≤

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

$$\frac{100}{94.64} = \frac{Days * 0.0568}{365} + 1$$

Therefore n= 364 days

29. B The money market is a wholesale debt market for a low risk, highly liquid short term instruments having the maturity ranging from a single day to a year. Option (b) is the correct answer. ≤

30. E Co-operating and promoting high standards of regulation in order to maintain just, efficient and sound markets. Exchanging information on their respective experiences in order to promote the development of domestic markets. Providing mutual assistance to promote the integrity of the markets. Therefore, option (e) is correct. ≤

31. C Indices can be calculate industry-wise to know their trend pattern and also for comparative purposes across the industries and with the market indices. All other statements are true; therefore, option (c) is correct. ≤

32. B The following are the feature of private placement: ≤

There are low entry barriers for the private placement market.

There is no need for registration of the offer document with SEBI.

The terms of the issue can be negotiated between the issuers and the investors.

The transaction costs are low.

Credit rating is optional in case of debt instruments.

Hence (b) is the correct answer.

33. C ≤

Paid-up equity capital (10,00,000 shares of Rs.10 each)	Rs.100,00,000
Profit after tax	Rs.78,00,000
EPS	Rs.7.8
Market price per share	Rs.78
Number of existing shares required for a rights share (10,00,000/2,00,000)	5
The value of share after the rights issue: Po+S/(N+1)=[(5x78)+20] / 5+1	Rs. 68.33

34. E Ex-rights price ≥ 35 ≤

$$\frac{NP_0 + S}{N+1} \geq 35$$

$$\frac{N40 + 40 \times 0.8}{N+1} \geq 35$$

40 N ≥ 35 (N + 1) – 32

5 N ≥ 3

N ≥ 3/5 = 0.6

Therefore, for every 1 shares held, a maximum 1.67 right shares will be offered and the answer is (e).

35. E An investor in a mutual fund scheme shall ≤

Receive the share certificates within a period of six weeks from the date of closure of subscription.

Get the units transferred to his name within a period of thirty days from the date of submitting the certificates of transfer.

Receive the information regarding the NAV at least once in a week.

Receive the entire publication money within a period of six weeks from the date of closure of subscription in case he is not being allotted any units.

Receive a complete statement of its scheme portfolio before the expiry of one month from the close of each half year.

Hence, option (e) is correct.

36. A Balance funds are the appropriate mix of equity and bonds, with a view to embrace modest risk of investment. ≤

37. C Intrinsic value is the minimum value of the warrant. Statement (a) is true ≤

The maximum value of the warrant is equal to the product of the current market price of the stock and the number of shares, i.e, P_s x N. Statement (b) is true

The minimum value of the warrant is zero when the current market price is less than the exercise price. When the current market price is more than the exercise price, minimum value = $(P_s – P_e)$ x N. Statement (c) is not true.

The market price of the warrant should be at least equal to the minimum value so that arbitragers will not make risk-free profits. Statement (d) is true

Warrant premium is the difference between the warrant price and the minimum price of the warrant. Statement (e) is true

Hence (c) is the answer.

38. A Warrant premium is the difference between the warrant price and the minimum value of the warrant. If the current market price of the stock P_s is greater than the exercise price P_e, the minimum value is given by $(P_s\text{-}P_e) \times N$. When the current market price of the stock is less than the exercise price, the minimum value is zero ≤

In this case since the current market price of the stock is less than the exercise price, the minimum value of the warrant is zero. Therefore the warrant premium will be Rs 20. Hence the correct answer is (a)

39. C The higher the expected interest rate volatility, the higher the OAS and similarly the lower the expected interest rate volatility, the higher the OAS. Therefore option (c) is correct. ≤

40. B ≤

Premium over conversion value = $\dfrac{\text{Bond price-Conversion value}}{\text{Conversion value}}$

Where conversion value =Current market price of the stock × Conversion rate

In the given case, conversion value = 55 × 20 = Rs.1,100

Premium over conversion value= $\dfrac{1300 - 1100}{1100}$ = 18.18%.

41. A Conversion parity price = Bond Price/Number of shares on conversion per warrant ≤

35.50 = x/25

x = 887.50

42. B Option adjusted duration ≤

$$= \frac{Price_{NCB}}{Price_{CB}} \times Dur_{NCB}(1 - Delta)$$

$$= (216/210.50) \times 6.5 \times (1 - 0.573) = 2.85$$

Therefore, Option (b) is the correct answer

43. B First find the value the bond as of 3 months from today and then discount this value back to today. In 3 months we will receive Rs.0.7 lakh. Including that initial payment, which need not be discounted, the value of our bond in 3 months is: ≤

= 0.7+ 0.7 x $PVIFA_{(3\%, 12)}$ + 20 x $PVIF_{(3\%,12)}$

= 0.7 + 0.7 x 9.9540 + 20 x 0.7014

=0.7 + 6.9678 + 14.028

= Rs.21.6958 lakh

Now we need to discount this value back to the quarter period.

$$= \frac{21.6958}{(1.03)^{0.5}} = 21.38 \text{ lakh.}$$

The value of the bond is Rs.21.38 lakh.

Hence (b) is the answer.

44. B The duration of the coupon-bearing bond does change with the interest rate change. For some bonds, the sensitivity of duration to interest rates is small (for zero coupon bond it is zero) while for the others it can be quite large. Convexity measures this sensitivity of duration to interest rate changes. ≤

45. E A bond becomes callable only when the prevailing market yield is less than the coupon rate on comparable bond. Investors may not be willing to pay the same price for a bond even when the coupon rate on the bond is lower than the market yield as what would have been its price if it were a callable bond, for there is a possibility of a further drop in the market yield, the issuer may call the bond. ≤

46. A Conversion premium = (Market price of the bond – Conversion value)/Conversion value ≤

= (970–45×19)/ 45×19= 13.45%

Current yield = 85/970 = 8.76%

Dividend yield = 0.85/19 = 4.47%

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

Yield/(1+%Premium)] = [0.1345/(1.1345)]/ [(0.0876 – 0.0447/1.1345)] = 2.46 years

47. D Flip-flop FRNs provides the note holder an option of converting the FRN into a three month flat yield at the end of every six months. ≤

Mismatch FRNs have semi-annual interest payments though the actual rate is fixed monthly.

Perpetual FRNs are irredeemable or unrated FRN's and are akin to a form of capital.

Structured FRNs are issued for longer terms with variable interest spreads with margins over LIBOR for later maturities.

Capped FRNs are pegged to an interest rate cap.

Hence option (d) is the answer

48. E The settlement date for a spot transaction is generally second business day from the date of transaction. Hence, for transaction done on March 27, 2008 the Thursday, second business day is Monday March 31, 2008, Saturday and Sunday being holidays. ≤

49. B A quote in terms of U.S. dollars per unit of any other currency is called an American quote. ≤

50. D $(DKr / €)_{bid}$: $(DKr / \$)_{bid} \times (\$ / €)_{bid}$ ≤

5.0955 x 1.3650

6.9554

$(DKr / €)_{ask}$: $(DKr / \$)_{ask} \times (\$ / €)$ ask

5.0962 x 1.3656

6.9594

DKr / € : 6.9554/ 6.9594

51. C 10,000[(1/1.9512)(1.05)(1.9580)] = 10,536.60. ≤

i.e. (10,536.60-10,000)/10,000*100= 5.37%

52. C The annualized percentage premium ≤

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

= [(39.64+39.67)/2] – [(39.49+39.50)/2] / ((39.49+39.50)/2

= (39.655 – 39.495) / 39.495] X 12/3 X 100 = 1.62%

53. C (CHF/Aus$) bid rate = (CHF/$)bid rate x (1/Aus$/$)ask rate ≤

= 1.0948 X (1/1.1220) = 0.9758

(CHF/Aus$) ask rate = (CHF/$)ask rate x (1/Aus$/$)bid rate

= 1.2350 X (1/1.1216) = 1.1011

54. B Three month forward and four month forward rates are as follows: ≤

	Bid rate	Ask rate
Spot	0.6472	0.6475
3- month forward	0.6452	0.6460
4-month forward	0.6442	0.6455

Here, the bank is selling USD to the exporter. Therefore, the appropriate rate to be used is the ask rate. Here, two ask rates available are Euro 0.6460/USD and Euro 0.6455/USD.

Since the bank has to sell USD and USD is at discount it will deduct minimum discount possible from the spot rate and sell the currency at highest possible ask rate. Hence, the bank will quote exchange rate of Euro0.6460/USD to the exporter.

Hence, option (b) is the correct answer.

55. C Profit margin of 0.10% is to be deducted from the bid rate. ≤

That is 39.52 X 0.10/100 = Rs.0.0395

Spot bid rate = 39.52 – 0.0395 = 39.48

56. D Market downturn will cause rates to fall but not necessary the spread ≤

57. D NAV = (Value of investments + Receivables + Accrued income + Other current assets – Liabilities – Accrued Expenses) / Number of units outstanding ≤

= (2874.20 + 180.80 + 163.45 + 481.52 -390.86 – 84.86) / 200 = Rs.16.12

Now the selling price of the investor will be

Rs.16.12 X (1-0.025) = Rs.15.72.

Hence (d) is the answer.

58. E As per prevailing regulations no mutual fund can provide assured return. All other alternatives in (a), (b),(c) and (d) are the benefits of a mutual fund ≤

59. D Open-ended mutual fund companies sell new shares at NAV plus a loading or management fee and redeem them at their NAV. Statement (d) is not true. ≤

Hence (d) is the answer.

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

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.

Therefore, option (e) is correct.

61. B According to the market extraction method, capitalization rate is computed as follows: ≤

Property (1)	NOI (Rs.) (2)	Market value (Rs.) (3)	NOI/Market value (%) (4)
A	40,000	6,90,000	5.80
B	36,000	6,60,000	5.45
C	42,000	7,00,000	6.00
D	38,000	6,70,000	5.67
E	45,000	7,30,000	6.16
Average Capitalization rate			5.816

Market value of a similar property whose NOI is Rs.55,000 is:

NOI / Capitalization rate = RS.55, 000 / 0.05816 = Rs.9, 45,667.

Hence (b) is the answer.

62. C Statement II relates to Bond of Investment method. Statement III relates to Built-up method. ≤

Hence, option (c) is correct.

63. C The total payments requried to be made to the bondholders consists of interet payments and contribution to the sinking fund. ≤

Amount contributed to the sinking fund = $\frac{i}{(1+i)^n - 1}$

= $\frac{0.10}{(1+0.10)^{10} - 1}$ = 0.0627

Interest rate on the bonds = 0.10

Therefore, total payments for a bond = 0.10 + 0.0627 = 0.1627 = 16.27%.

Therefore, capitalization rate for the property = (0.60 x 0.1627) + (0.40 x 0.20) = 17.76%.

64. A Interest Rates, Population Demographics and Business cycle are the macro factors affecting the value of real asset whereas location of a land or downward market is considered to be micro factor. ≤

65. D Monthly pension under EPS = {pensionable salary x(pensionable year of service+2)}/70 ≤

= [30000 x (38+2)] / 70

= Rs.17142.86 Approx Rs.17,143

66. A Emerging markets strategy employs a growth or value approach to investing in equities without minimizing systematic risk. ≤

Equity market neutral strategy is purely market timing rather than stock picking and has no correlation with the market. On the basis of fundamental and technical analysis, fund managers take long and short position on the undervalued and overvalued stocks respectively.

Therefore, option (a) is correct.

67. A A futures contract on a commodity specifies the quantity and quality of underlying asset, tick size or minimum price fluctuation, limits on daily price fluctuation and delivery months. For certain contracts the delivery period will be throughout the month. Trading on contracts generally ceases a few days before the last day on which the delivery can be made. ≤

The main function of the futures market is to transfer price risk from hedgers to speculators. Seller chooses to handover the commodity instead of difference in cash, the buyer must take physical delivery of underlying asset.

Option (a) is correct.

68. A Price of the commodity is not a parameter for generating ICIN; apart from price all the other options are correct. ≤

69. D Basis is the difference between the current cash price of the commodity and the futures price. Basis is higher for contracts with longer maturity. ≤

70. B Initial margin = (18 + 3 x 3.5) x 100 = Rs.2,850. ≤

71. B Optimal stock index future hedge ratio = (Rs.2,400,000 x 1.15) / (4500.70 x 50) =12.26. ≤

72. C Selling stock short and simultaneously buying a call is similar to buying a put option. ≤

73. D In order to hedge his position, the investor sells the index futures contract. ≤

In order to determine the number of futures he has to sell, the beta of the stock should be known. Here beta =1.2 the size of the position that the investor needs to hedge his index exposure is

1.2 x 6, 00,000 = Rs 7, 20,000.

74. E Here, the naked call option is in-the-money the margin to be deposited by the writer is = Option premium for 1600 shares + (0.20 x stock's market price x 1600) ≤

= (1600 x 5) + (0.20 x 124 x 1600)

= 8000 + 39680

= Rs.47680.

75. B A currency swap is a combination of two positions: one spot and one forward with an exchange of currencies taking place at predetermined exchange rates. ≤

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