PRACTICE QUESTIONS

SECURITIES MARKET (BASIC) MODULE

1) The following are participants in the securities markets ______. (1 mark)
   (a) Underwriters
   (b) Debenture Trustees
   (c) Venture Capital Funds
   (d) All of the above
   (e) I am not attempting the question

2) The securities markets have the following category (ies) of participant (s) ______. (1 mark)
   (a) issuers of securities
   (b) investors in securities
   (c) intermediaries
   (d) All of the above
   (e) I am not attempting the question

3) In private placement, issuance is done to ______. (2 marks)
   (a) more than 50 persons
   (b) less than 100 persons
   (c) less than 50 persons
   (d) less than 10 persons
   (e) I am not attempting the question

4) Which entity provides novation: ______. (2 marks)
   (a) NSCCL
   (b) NSE
   (c) NSDL
   (d) CDSL
   (e) I am not attempting the question

5) ______ deals with issue, allotment and transfer of securities and various aspects relating to company management. (2 marks)
   (a) Companies Act, 1956
   (b) Depositories Act, 1996
   (c) Capital Issues (Control) Act, 1947
   (d) None of the above
   (e) I am not attempting the question
6) ______ envisages transfer of ownership of securities electronically by book entry without making the securities move from person to person.  
   (2 marks)  
   (a) Companies Act, 1956  
   (b) Depositories Act, 1996  
   (c) Capital Issues (Control) Act, 1947  
   (d) None of the above  
   (e) I am not attempting the question

7) A company making a public issue of securities has to file a draft prospectus with ____.  
   (1 mark)  
   (a) RBI  
   (b) SEBI  
   (c) Ministry of Finance  
   (d) None of the above  
   (e) I am not attempting the question

8) For public and rights issues of debt instruments, it is mandatory to obtain credit rating from a registered credit rating agency. True or False.  
   (1 mark)  
   (a) True  
   (b) False  
   (c) I am not attempting the question

9) Promoters’ contribution in case of public issues by unlisted companies and promoters’ shareholding in case of ‘offers for sale’ shall not be less than ____ of post issue capital  
   (2 marks)  
   (a) 50%  
   (b) 15%  
   (c) 20%  
   (d) 30%  
   (e) I am not attempting the question

10) The Companies Act, 1956 requires that every public listed company making an IPO of any security for ____ or more shall issue the same only in dematerialized form.  
    (2 marks)  
    (a) Rs. 50 crores  
    (b) Rs. 30 crores  
    (c) Rs. 20 crores  
    (d) Rs. 10 crores  
    (e) I am not attempting the question
11) Foreign Currency Convertible Bonds (FCCBs) are also known as _______.   
   (a) Euro Issues  
   (b) Dollar Issues  
   (c) Convertible credit securities  
   (d) Convertible credit bonds  
   (e) I am not attempting the question

12) Mutual Funds being Public Trusts are governed by the _______.         (2 marks)  
   (a) Indian Trustees Act, 1887  
   (b) Mutual Trust Act, 1880  
   (c) Public Trust Act, 1886  
   (d) Indian Trust Act, 1882  
   (e) I am not attempting the question

13) A company proposing to list on the NSE must have a minimum paid up equity capital of _____.                           (1 mark)  
   (a) Rs. 50 crs.  
   (b) Rs. 20 crs.  
   (c) Rs. 10 crs.  
   (d) Rs. 30 crs.  
   (e) I am not attempting the question

14) During Auction, order matching takes place after the ____.           (3 marks)  
   (a) Solicitor period  
   (b) Initiator period  
   (c) Competitor period  
   (d) Open period  
   (e) I am not attempting the question

15) For Auction market price bands of _____ are applicable.                (2 marks)  
   (a) 50%  
   (b) 15%  
   (c) 20%  
   (d) 30%  
   (e) I am not attempting the question

16) ______ is a clearing member but not a trading member.             (1 mark)  
   (a) Clearing Banks  
   (b) Self Clearing Member  
   (c) Clearing Member
17) If the Custodian rejects a trade, the obligation is assigned back to the _____.
   (1 mark)
   (a) investor
   (b) trading member
   (c) clearing bank
   (d) depository
   (e) I am not attempting the question

18) A clearing member receives shares during ____ .
   (1 mark)
   (a) pay-in
   (b) pay-out
   (c) auction
   (d) funds settlement
   (e) I am not attempting the question

19) The market for government securities comprises the securities issued by the ________
   (1 mark)
   (a) Central Govt.
   (b) State Govt
   (c) State sponsored entities
   (d) All of the above
   (e) I am not attempting the question

20) The _____ arises if a party discharges his obligations but the counterparty defaults.
    (2 marks)
    (a) replacement cost risk
    (b) principal risk
    (c) systemic risk
    (d) unsystematic risk
    (e) I am not attempting the question

21) The ______ combines the features of cash as well as futures markets.
    (1 mark)
    (a) account period settlement
    (b) rolling settlement
    (c) T+2 settlement
    (d) T+1 settlement
    (e) I am not attempting the question

22) Under the T+2 rolling settlement at NSE, Auction takes place on ______.
23) Under the T+2 rolling settlement at NSE, Custodial Confirmation takes place on _______.  
(a) T+0  
(b) T+1  
(c) T+2  
(d) T+3  
(e) I am not attempting the question

24) NSCCL levies penalties on trading members for non-compliances and defaults like : ________  
(a) Funds Shortages  
(b) Securities Shortages  
(c) Margin Shortages  
(d) All of the above  
(e) I am not attempting the question

25) Interest payments of the following bonds are based on Wholesale Price Index / Consumer Price Index :  
(a) SBI Bonds  
(b) RBI Bonds  
(c) Zero Coupon bonds  
(d) Indexed bonds  
(e) I am not attempting the question

26) Security Type GS stands for ____ in the WDM Segment of NSE.  
(a) GDR Securities  
(b) Government Securities  
(c) General Securities  
(d) None of the above  
(e) I am not attempting the question

27) Under DVP III, securities are settled on a ___ basis.  
(a) cash  
(b) gross  
(c) net
(d) T+5
(e) I am not attempting the question

28) ______ performs novation for transactions in Government Securities. (3 marks)

(a) Clearing Corporation of India Ltd. (CCIL)
(b) National Securities Clearing Corporation Ltd. (NSCCL)
(c) National Stock Exchange (NSE)
(d) National Depository Services Ltd. (NSDL)
(e) I am not attempting the question

29) ______ trades are essentially forward transactions in a security which is still to be issued. (3 marks)

(a) Forward
(b) If Issued
(c) When Issued
(d) None of the above
(e) I am not attempting the question

30) Swaps are a type of derivatives. True or False. (1 mark)

(a) True
(b) False
(c) I am not attempting the question

31) Arbitrageurs are one of the participants in the derivatives markets. True or False. (1 mark)

(a) True
(b) False
(c) I am not attempting the question

32) Risk averse investors use derivatives for speculation. True or False. (1 mark)

(a) True
(b) False
(c) I am not attempting the question

33) Speculators use derivatives as Hedging tools. True or False. (1 mark)

(a) True
(b) False
(c) I am not attempting the question

34) ______ are standardized, exchange traded contracts. (2 marks)
(a) Swaps  
(b) Forwards  
(c) Futures  
(d) FRAs  
(e) I am not attempting the question

35) An exporter would _____ dollar forwards to lock in an exchange rate. (2 marks)

(a) sell  
(b) buy  
(c) hold  
(d) exchange  
(e) I am not attempting the question

36) Strike Price for a call option on a stock is Rs. 125 and the underlying stock price is Rs. 120. If the Premium is Rs.2, the option is _____. (2 marks)

(a) In the money  
(b) Out of the money  
(c) At the money  
(d) Deep in the money  
(e) I am not attempting the question

37) An out of the money call option has an intrinsic value of zero. True or False. (3 marks)

(a) True  
(b) False  
(c) I am not attempting the question

38) A security trades in the Spot market at Rs. 1319. Money can be invested at 10% p.a. The fair value of a one month futures contract on the security is _____. (2 marks)

(a) Rs. 1341.10  
(b) Rs. 1333.20  
(c) Rs. 1328.30  
(d) Rs. 1330.05  
(e) I am not attempting the question

39) A security trades in the Spot market at Rs. 1423. Money can be invested at 10% p.a. The fair value of a one month futures contract on the security is _____. (2 marks)

(a) Rs. 1441.90  
(b) Rs. 1434.40  
(c) Rs. 1426.70  
(d) Rs. 1434.90  
(e) I am not attempting the question
40) If you are bullish about a stock, you would ____ call options on the stock. 
(a) sell  
(b) buy  
(c) short  
(d) write  
(e) I am not attempting the question

41) If you are bearish about a stock, you would ____ put options on the stock. 
(a) sell  
(b) buy  
(c) short  
(d) write  
(e) I am not attempting the question

42) _____ is the total number of outstanding contracts that are held by market participants at the end of each day. 
(a) Outstanding position 
(b) Outstanding Interest 
(c) Open position 
(d) Open Interest 
(e) I am not attempting the question

43) _____ means a depository whose name is entered as such in the register of the issuer. 
(a) Beneficiary owner  
(b) Registered owner  
(c) Investment Banker  
(d) R&T Agent 
(e) I am not attempting the question

44) A company may purchase its own shares, out of _____. 
(a) it's promoters money  
(b) it's Equity Capital  
(c) Profits  
(d) Free Reserves 
(e) I am not attempting the question

45) A security trades in the Spot market at Rs. 1600. Money can be invested at 10% p.a. The fair value of a one month futures contract on the security is ____
(a) Rs. 1651.90
(b) Rs. 1634.40
(c) Rs. 1666.40
(d) Rs. 1613.40
(e) I am not attempting the question

46) A seller of a call option has to pay securities transaction tax. True or False.  

(a) True  
(b) False  
(c) I am not attempting the question

47) A buyer of a put option has to pay securities transaction tax. True or False.  

(a) True  
(b) False  
(c) I am not attempting the question

48) _____ deals with listing of securities on stock exchanges.  

(a) NSDL  
(b) RBI  
(c) SC(R)R, 1957  
(d) SC(R)A, 1956  
(e) I am not attempting the question

49) What is the present value of Rs. 1000 payable 3 years hence, if the interest rate is 8% per annum?  

(a) Rs. 779.42  
(b) Rs. 788.23  
(c) Rs. 793.83  
(d) Rs. 785.54  
(e) I am not attempting the question

50) What is the present value of Rs. 1000 payable 5 years hence, if the interest rate is 10% per annum?  

(a) Rs. 680.64  
(b) Rs. 656.56  
(c) Rs. 620.92  
(d) Rs. 690.76  
(e) I am not attempting the question
51) Calculate the value 5 years hence of a deposit of Rs. 1000 made today if the interest rate is 9%. (2 marks)
(a) Rs. 1543.65
(b) Rs. 1538.62
(c) Rs. 1546.23
(d) Rs. 1570.54
(e) I am not attempting the question

52) _____ is the discount rate which makes its net present value equal to zero. (1 mark)
(a) Accrued Interest rate
(b) Compounding
(c) Discounting
(d) Internal Rate of Return (IRR)
(e) I am not attempting the question

53) The Dividend Growth Model approach assumes that the price of equity stock depends ultimately on the dividend expected from it. True or False. (2 marks)
(a) True
(b) False
(c) I am not attempting the question

54) Security A gives a return of 10% with a dispersion of 4%, while security B gives return of 18% with a dispersion of 6%. Which security is more risky? (2 marks)
(a) Security A
(b) Neither of the securities is risky
(c) Security B
(d) Both securities are equally risky
(e) I am not attempting the question

55) Security A gives a return of 12% with a dispersion of 4%, while security B gives return of 15% with a dispersion of 5%. Which security is more risky? (2 marks)
(a) Security B
(b) Both securities are equally risky
(c) Security A
(d) Neither of the securities is risky
(e) I am not attempting the question

56) How much is the correlation coefficient between the companies A and B, if their covariance is 20 and their standard deviations respectively are 4 and 6? (2 marks)
(a) 0.5345
(b) 0.8334
c) 0.5275  
d) -0.2131  
e) I am not attempting the question

57) How much is the correlation coefficient between the companies A and B, if their covariance is 32 and their standard deviations respectively are 7 and 6?  (2 marks)

a) 0.53  
b) 0.83  
c) 0.52  
d) 0.76  
e) I am not attempting the question

58) For a security B, if price at the beginning of the year is Rs.50; dividend receivable at the end of the year is Rs.1.5; and the price at the end of the year is Rs.53 then what is the rate of return on the security?  (2 marks)

a) 0.05  
b) 0.03  
c) 0.02  
d) 0.09  
e) I am not attempting the question

59) Gross Profit Ratio is given by __________.  (2 marks)

a) Gross Profit/Net Sales  
b) Net Profit/ Cost of Sales  
c) Net Profit/Sales  
d) Gross Profit/Cost of Sales  
e) I am not attempting the question

60) Fixed Assets Turnover Ratio is given by __________.  (2 marks)

a) Net Sales/Average Net Fixed Assets  
b) Net Sales/Gross Fixed Assets  
c) Cost of Sales/Average Net Fixed Assets  
d) Cost of Sales/Gross Fixed Assets  
e) I am not attempting the question
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