

# **MOCK MCQ TEST**

**SUBJECT: INVESTMENT  
MANAGEMENT**

**PAPER CODE: BCOM 311**

DELHI INSTITUTE OF ADVANCED STUDIES

## **FOR PRIVATE CIRCULATION**

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Q1. This type of risk is avoidable through proper diversification.

- A. portfolio risk
- B. systematic risk
- C. unsystematic risk
- D. total risk

Q2. A statistical measure of the degree to which two variables (e.g., securities' returns) move together.

- A. coefficient of variation
- B. variance
- C. covariance
- D. certainty equivalent

Q3. An "aggressive" common stock would have a "beta"

- A. equal to zero.
- B. greater than one.
- C. equal to one.
- D. less than one.

Q4. The risk-free security has a beta equal to \_\_\_\_\_ , while the market portfolio's beta is equal to \_\_\_\_\_

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- A. one; more than one.
- B. one; less than one.
- C. zero; one.
- D. less than zero; more than zero.

Q5. Beta is the slope of

- A. the security market line.
- B. the capital market line.

- C. a characteristic line.
- D. the CAPM.

Q6. A measure of "risk per unit of expected return."

- A. standard deviation
- B. coefficient of variation
- C. correlation coefficient
- D. beta

Q7. Which of the following securities have potentially the highest risk level, and also have the highest potential return?

- A. Commercial paper
- B. Bonds
- C. Preferred stocks
- D. Derivative securities
- E. Stocks

Q8. The feasibility of converting an asset quickly and without significantly affecting its price is called:

- A. divisibility
- B. marketability
- C. liquidity
- D. low risk
- E. both a and b

Q9. The price of a T-bill today is \$97 and its maturity value is \$100. The maturity is 6 months from now.

- A. The dollar return to the investor would be \$1 if held to maturity
- B. The investor cannot lose money, but its earnings are not known before the maturity date
- C. The dollar return to the investor would be \$3 if the T-bill is held to maturity
- D. The investor can lose money on these T-bills if held to maturity

Q10. Blue chip stocks:

- A. are common stocks of large, financially sound corporations with a good history of dividend payments and consistent earnings growth
- B. are common stocks of medium-size firms having earnings growth in excess of the industry average
- C. have high growth potential but are very risky
- D. tend to do well in recessionary periods, but do not do well when the economy is booming

- E. are common stocks of older, more mature firms that pay higher dividends and are not growing rapidly

Q11. A \_\_\_\_\_ represents part ownership in a public firm.

- A. cumulative preferred stock
- B. preference share
- C. call option
- D. common stock
- E. convertible bond

Q12. Variance calculation and measuring the Standard deviation is one way of measuring the \_\_\_\_\_

- A. Risk
- B. Return
- C. Speculation
- D. Gambling

Q13. Labour strike, consumer preferences and management policies are making to arises out of uncertainty is known as \_\_\_\_\_

- A. Financial Risk
- B. Business Risk
- C. Unsystematic Risk
- D. Systematic Risk

Q14. Horse racing, game of cards, lottery are the typical examples of \_\_\_\_\_

- A. Investment
- B. Speculation
- C. Gambling
- D. Arbitrage

Q15. Buying low and selling high, making a large capital gain is associated with \_\_\_\_\_

- A. Investment
- B. Speculation
- C. Gambling
- D. Arbitrage

Q16. The process of holding shares in electronic form is known as

- A. Demutualisation
- B. Dematerialisation
- C. Speculation
- D. None of the above

Q17. \_\_\_ is the market which helps existing investors to sell their securities.

- A. Primary market
- B. Secondary market
- C. Capital market
- D. Commodity market

Q18. An order to buy or sell a specified quantity of a stock at a specified price or better is called a

- A. day order
- B. market order
- C. stop order
- D. not-held order
- E. limit order

Q19. The exchange generating the largest volume in the United States is the:

- A. New York Stock Exchange
- B. National Market System
- C. Pacific Stock Exchange
- D. Chicago Stock Exchange
- E. American Stock Exchange

Q20. Which of the following is not a characteristic of an exchange?

- A. It provides liquidity to individuals who acquire securities in the primary market.
- B. It requires one to be a member in order to be allowed to trade.
- C. Stocks traded on an exchange must meet minimum listing requirements.
- D. It allows exchange-listed issues to trade off the exchange floor with the aid of brokers.
- E. It allows securities to be listed on more than one exchange.

Q21. SENSEX is the index of -----.

- A. BOMBAY STOCK EXCHANGE
- B. NATIONAL STOCK EXCHANGE
- C. BOTH OF THESE
- D. NONE OF THESE

Q22. It acts like a bank and keeps securities in electronic form on behalf of the investor,

- A. Depository Participant
- B. Depository
- C. Stock Exchange
- D. None of these

Q23. On this day, the exchange will deliver the share or make payment to the other broker,

- A. PAY-IN DAY
- B. PAY-OUT DAY
- C. TRANSACTION DAY
- D. NONE OF THESE

Q24. \_\_\_ is the institution which provides a platform for trading of existing securities having long-term maturity.

- A. SEBI
- B. WTO
- C. Stock Exchange
- D. RBI

Q25. Which one of the following is not a function of financial market?

- A. Mobilisation of savings
- B. Price determination of securities
- C. Floating of companies
- D. Lowering transaction cost

Q26. A \_\_\_\_\_ is a person who acts as an intermediary between a buyer or seller in the market.

- A. broker
- B. floor broker
- C. registered competitive trader
- D. dealer
- E. specialist

Q 27. 100 shares of Reliance Ltd. are purchased on Monday. Provided there are no holidays in between, the settlement should take place on \_\_\_\_\_?

- A. Wednesday (T+2)
- B. Tuesday (T+1)
- C. Thursday (T+3)
- D. Friday (T+4)

Q28. CDSL stands for -----.

- A. Central Depository Services Ltd.
- B. Central Derivatives Services Ltd.
- C. Central Deposit System Ltd
- D. Central Derivatives System Ltd

Q29. ----- is a barometer for market behavior.

- A. Investment
- B. Index
- C. Arbitrage
- D. None of These

Q30. Devise adopted to make profit out of the difference in prices of a security in two different markets is called-----.

- A. Arbitrage
- B. Margin Trading
- C. Call Option
- D. None of These

Q31. Which of the following bonds has the shortest duration?

- A. Coupon = 15%, time to maturity = 15 years, yield to maturity = 10%
- B. Coupon = 12%, time to maturity = 20 years, yield to maturity = 10%
- C. Coupon = 15%, time to maturity = 15 years, yield to maturity = 15%
- D. Coupon = 10%, time to maturity = 20 years, yield to maturity = 10%

Q32. An investor who expects increasing interest rates should purchase a bond that has a \_\_\_\_\_ coupon and a \_\_\_\_\_ term to maturity.

- A. high, short
- B. zero, long
- C. high, long
- D. low, long

Q33. A bond that makes no coupon payments (and thus is initially priced at a deep discount to par value) is called a \_\_\_\_\_ bond.

- A. Treasury
- B. municipal
- C. floating rate
- D. junk
- E. zero-coupon



Q34. The annual coupon of a bond divided by its face value is called the bond:

- A. Coupon
- B. Face value.
- C. Maturity
- D. Yield to maturity.
- E. Coupon rate.

Q35. The rate of return required by investors in the market for owning a bond is called the:

- A. Coupon
- B. Face value.
- C. Maturity
- D. Yield to maturity.
- E. Coupon rate.

Q36. The Yield to Maturity of a bond is the same as \_\_\_\_\_?

- A. The present value of the bond
- B. The bonds internal rate of return
- C. The future value of the bond
- D. None of these

Q37. If a firm increases its plowback ratio, this will probably result in \_\_\_\_\_ P/E ratio.

- A. Higher
- B. Lower
- C. Unchanged
- D. Can't be determined

Q38. The accounting measure of a firm's equity value generated by applying accounting principles to asset and liability acquisitions is called \_\_\_\_\_.

- A. Book Value
- B. Market value
- C. Liquidation Value
- D. Tobins q

Q39. The price-to-sales ratio is probably most useful for firms in which phase of the industry life cycle?.

- A. Start-up phase
- B. Consolidation
- C. Maturity
- D. Relative decline

Q40. A stock has an intrinsic value of \$15 and an actual stock price of \$13.50. You know that this stock

- A. has a Tobin's q value  $< 1$
- B. signals buy opportunity
- C. has an expected return less than its required return
- D. has a beta  $> 1$

Q41. If a stock is correctly priced, then you know that \_\_\_\_\_.

- A. the dividend payout ratio is optimal
- B. the stock's required return is equal to the growth rate in earnings and dividends
- C. the sum of the stock's expected capital gain and dividend yield is equal to the stock's required rate of return
- D. the present value of growth opportunities is equal to the value of assets in place

Q42. Bill, Jim, and Shelly are all interested in buying the same stock that pays dividends. Bill plans on holding the stock for 1 year. Jim plans on holding the stock for 3 years. Shelly plans on holding the stock until she retires in 10 years. Which one of the following statements is correct?

- A. Bill will be willing to pay the most for the stock because he will get his money back in 1 year when he sells.
- B. Shelly should be willing to pay the most for the stock because she will hold it the longest and hence will get the most dividends.
- C. All three should be willing to pay the same amount for the stock regardless of their holding period.
- D. None of these

Q43. The constant-growth dividend discount model (DDM) can be used only when the \_\_\_\_\_.

- A. growth rate is equal to the required return
- B. growth rate is greater than or equal to the required return
- C. growth rate is less than the required return
- D. growth rate is greater than the required return

Q44. You want to earn a return of 10% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of \$4 in the upcoming year. The expected growth rate of dividends is 6% for stock A and 5% for stock B. Using the constant-growth DDM, the intrinsic value of stock A \_\_\_\_\_.

- A. will be higher than the intrinsic value of stock B
- B. will be the same as the intrinsic value of stock B
- C. will be less than the intrinsic value of stock B
- D. The answer cannot be determined from the information given.

Q45. You are considering acquiring a common share of Sahali Shopping Center Corporation that you would like to hold for 1 year. You expect to receive both \$1.25 in dividends and \$35 from the sale of the share at the end of the year. The maximum price you would pay for a share today is \_\_\_\_\_ if you wanted to earn a 12% return.

- A. \$31.25
- B. \$32.37
- C. \$38.47
- D. \$41.32

Q46. An efficient market is defined as one in which

- A. all participants have the same opportunity to make the same returns.
- B. all participants have the same legal rights and transactions costs.
- C. securities' prices quickly and fully reflect all available information.
- D. securities' prices are completely in line with the intrinsic value.

Q47. Weak form market efficiency

- A. implies that the expected return on any security is zero.
- B. incorporates semi-strong form efficiency.
- C. involves price and volume information.
- D. is compatible with technical analysis

Q48. The highest level of market efficiency is

- A. weak form efficiency.
- B. semi-strong form efficiency.
- C. random walk efficiency.
- D. strong form efficiency.

Q49. The random walk hypothesis is most related to the:

- A. weak-form EMH
- B. semistrong-form EMH
- C. semiweak-form EMH
- D. strong-form EMH

Q50. According to the semi-strong form of the EMH, investors who invest in a stock after a highly positive announcement concerning the stock can expect to earn a(n)

- A. normal return because the stock will be fairly priced when purchased.
- B. extraordinary return because the new information will not affect the price until later.
- C. loss because things often are not what they seem.
- D. zero return because the next price is expected to be the same as the last price

Q51. Which of the following is not a method employed by fundamental analysts?

- A. Analyzing the Fed's next interest rate move
- B. Relative strength analysis
- C. Earnings forecasting
- D. Estimating the economic growth rate

Q52. Which of the following is not a method employed by followers of technical analysis?

- A. Charting
- B. Relative strength analysis
- C. Earnings forecasting
- D. Trading around support and resistance levels

Q53. If you believe in the \_\_\_\_\_ form of the EMH, you believe that stock prices reflect all publicly available information but not information that is available only to insiders.

- A. Semi strong
- B. Strong
- C. Weak
- D. Perfect

Q54. Choosing stocks by searching for predictable patterns in stock prices is called \_\_\_\_\_.

- A. Fundamental Analysis
- B. Technical Analysis
- C. Index Management
- D. Random Walk Investment

Q55. Which of the following terms represents an upper price limit for a stock, based on the quantity of willing sellers?

- A. Support.
- B. Trendline.
- C. Channel.
- D. Resistance.

Q56. Which of the following is not a basic tenet of the Dow Theory?

- A. No additional information is needed for the stock market outside of data on stock indexes.
- B. The financial market has three distinct types of movements: the primary trend, the intermediate trend, and short-term trends.
- C. There is usually a positive relationship between a trend and the volume of shares traded.
- D. The intermediate trend has a duration of three weeks to six months.
- E. A bear market is established when the Dow Jones Industrial Average is moving down.

Q57. Which of the following is not part of the bar chart?

- A. Opening price.
- B. Closing price.
- C. High price.
- D. Low price.

Q58. Which of the following is not a part of the candlestick chart?

- A. Opening price.
- B. Shadows.
- C. Closing price.
- D. Real body.
- E. Volume of trading.

Q59. When technical analysts say a stock has good relative strength, they mean the:

- A. total return on the stock has exceeded the total return on other stocks in the same industry.
- B. ratio of the price of the stock to a market index has trended upwards.
- C. stock has performed well compared to other stocks in the same industry.
- D. recent trading volume in the stock has exceeded the normal trading volume.
- E. ratio of the price of the stock to a market index has trended downwards.

Q60. Market price breaking through the moving average from below is a .....indicator.

- A. Bullish
- B. Bearish
- C. Flat
- D. None of the above

Answer Key of QUESTIONS

1	C.	11	D.	21	A.	31	C.	41	C.	51	B.
2	C.	12	A.	22	B.	32	A.	42	C.	52	C.
3	B.	13	C.	23	B.	33	E.	43	C.	53	A.
4	C.	14	C.	24	C.	34	E.	44	A.	54	B.
5	C.	15	B.	25	C.	35	D.	45	B.	55	D.
6	B.	16	B.	26	A.	36	B.	46	C.	56	E.
7	D.	17	B.	27	A.	37	D.	47	C.	57	A.
8	B.	18	E.	28	A.	38	A.	48	D.	58	E.
9	C.	19	A.	29	B.	39	A.	49	A.	59	B.
10	A.	20	D.	30	A.	40	B.	50	A.	60	A.