PG DEPARTMENT OF COMMERCE (CA)

QUESTION BANK

COURSE: M.Com (CA) **SEMESTER:** III

SUBJECT CODE: 18PCC312 **SUBJECT:** SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

KI LEVEL

1) A liquid asset may

a. be converted into cash **b. be converted into cash with little chance of loss**

c. not be converted into cash d. not be converted without loss

2) If interest rates rise, the price of preferred stock

a. is not affected b. rises

c. Falls d. may rise or fall

3) Benchmark portfolio risk is defined as

A) the return difference between the portfolio and the benchmark

B) the variance of the return of the benchmark portfolio

C) the variance of the return difference between the portfolio and the benchmark

D) the variance of the return of the actively-managed portfolio

4) Active portfolio management consists of __________.

A) market timing B) security analysis

C) indexing **D) A and B**

5) The critical variable in the determination of the success of the active portfolio is ________.

A) alpha/systematic risk **B) alpha/nonsystematic risk**

C) gamma/systematic risk D) gamma/nonsystematic risk

6) Which of the following is the best definition of wealth?

A. The sum of all current and future income B. The total of all assets and all income

C. The total of assets and income less any liabilities. **D. The sum of current income and the** present value of future income

7) Stocks and bonds would be classified as

A. Real assets B. Indirect assets

C. Personal assets D. Financial assets

8) Technically, investments include:

A. Only financial assets. B. Only marketable assets.

C. Financial and real assets that is marketable or non-marketable. D. Only financial and real assets that is marketable.

9) Former name for stockbrokers is:

A. Specialists **B. Registered representatives**

C. Security analysts D. Portfolio managers

10) Investment professionals whose jobs may depend on their performance relative to the market are the

A. Registered representatives **B. Security analysts**

C. Investment bankers D. Portfolio managers

11) Most financial advisors are registered with the Securities and Exchange Board.

A. Registered representatives. B. Registered investor advisors.

C. Registered financial planners. D. Registered securities consultants.

12. Underlying all investments is the tradeoff between:

A. expected return and actual return B. Low risk and high risk

C. Actual return and high risk D. Expected returns and risk.

13) Which of the following investment areas is heavily tied to work using mathematical and statistical models?

A. Security analysis B. Portfolio management

C. Institutional investing D. Retirement planning.

14) Majority investors are risk averse which means

A. They will assume more risk only if they are compensated by higher expected return.

B. They will always invest in the investment with the lowest possible risk.

C. They actively seek to minimize their risks.

D. They avoid the stock market due to the high degree of risk.

14. Which of the following would be considered a risk-free investment?

A. Gold B. Equity in a house

C. High-grade corporate bonds D. Treasury bills.

15. Security analysis is most concerned with

A. Analysis of the overall securities market and its direction.

B. Valuation and analysis of individual securities.

C. Purchasing securities at the best price.

D. Determination of the investor's required return.

16. Treasury bills are traded in the ---------------------.

A. Money market. B. Capital market.

C. Government market D. regulated market.

17. Treasury bill is a______________ security

a) Short term B. Long term

c) Medium term d) None of the above

18. Which of the following would not be considered as capital market security?

A. A corporate bond
B. A common stock
C. A 6-month Treasury bill
D.A mutual fund share.

19. Dividends are paid_____________

A. Monthly.
B. Quarterly.
C. Semi-annually.
D. Yearly.

20. Which of the following is not a characteristic of investments companies?

A. pooled investing
B. Diversification
C. Managed portfolios
D. Reduced expenses.

21. Investment made in real estate is a

A. real investment
B. financial investment
C. non-financial investment.
D. intangible investment.

22. The most popular type of investment company is a_____________

A. Unit trust of India
B. Mutual fund.
C. Closed-end investment company
D. Real estate investment trust.

23) A group of mutual funds with a common management are known as:

A. Fund syndicates.
B. Fund conglomerates.
C. Fund families.
D. Fund complexes.

24) Primary issue of an company share known as________________

A. syndicate offer
B. IPO
C. Prospectus
D. Shelf rule

25) Investment bankers operate in the:

A. Primary market B. Secondary market

C. Third market D. Fourth market

26) Political stability is the major factor concerning:

A. Exchange risk B. Systematic risk

C. Non systematic risk **D. country risk**

27) Which of the following is not related to overall market variability?

A. Financial risk. B. Interest rate risk.

C. Purchasing power risk. D. Market risk.

28) Financial disclosure regulations affecting the brokerage industry are a type of:

A. Market risk. B. Financial risk.

C. Business risk. D. Liquidity risk.

29) If interest rates rise, you would expect _______ to also rise.

A. Business risk. B. Financial risk.

C. Liquidity risk. D. Inflation risk.

30) Company specific risk is also known as:

A. Business risk B. Systematic risk.

C. Non- diversifiable risk. D. Idiosyncratic risk

31) The relevant risk for a well-diversified portfolio is:

A. Interest rate risk. B. Inflation risk.

C. Business risk. **D. Market risk**

32) Portfolio risk is best measured by the:

A. Expected value B. Portfolio beta.

C. Weighted average of individual risk. D. Standard deviation.

33) Market risk is best measured by the:

A. Alpha B. Beta

C. Standard deviation **D. Coefficient of variation**

34) Non systematic risk is also known as:

A. No diversifiable risk. B. Market risk.

C. Random risk. D. company-specific risk

35) The _______ is the risk free investment

A. Savings account **B. Certificate of deposit**

C. Treasury bill D. Treasury bond

36) The highest level of market efficiency is

A. Weak form efficiency. B. Semi-strong form efficiency.

C. Random walk efficiency. **D. Strong form efficiency**

37) Adequate working capital means

A. Sufficient funds B. Insufficient funds

C. Lack of funds D. All of the above

38) Default risk is lower in

A. Treasury bills B. Government bonds

C. ICICI bonds D. IDBI bonds

39) ______ are financial assets.

A. Bonds B. Machines

C. Stocks **D. A and C**

40) The central issue of efficient markets concerns:

A. Regulations B. Information

C. Participants D. Structure

41) An efficient market is defined as one in which:

A. All participants have the same opportunity to make the 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.

42) Under the Markowitz model, investors:

A. are assumed to be risk- seekers B. are not allowed to use leverage

C. are assumed to be institutional investors **D. all of the above**

43) The Markowitz model assumes most investors are:

A. Risk Averse B. Risk neutral

C. risk seeks D. risk moderators

44) According to Markowitz, an efficient portfolio is one that has the

A. largest expected return for the smallest level of risk

B. largest expected return and zero risk

C. largest expected return for a given level of risk

D. smallest level of risk

45) -------- is concerned with the interrelationships between security returns.

A. random diversification B. correlating diversification

C. Friedman diversification **D. Markowitz diversification**

46) The last step in fundamental analysis is

A. economic analysis B. industry analysis

C. company analysis D. technical analysis

47) The random walk hypothesis is most related to the

A. weak form EMH **B. semi strong form EMH**

C. semi weak form EMH D. strong form EMH

48) SEBI would not vet offer documents seeking listing on

A. OTCEI B. NSE

C. BSE D. ISE

49) Market risk is best measured by the

A. alpha B. beta

C. standard deviation **D. coefficient of variation**

50) A portfolio which lies below the efficient frontier is described as

A. optimal B. unattainable

C. dominant D. dominated

<u>K2 LEVEL QUESTIONS AND ANSWERS</u>

1) What is investment?

Investment is the purchase of goods that are not consumed today but are used in the future to create wealth.

2) Define-Investment.

Investment management is a phrase that refers to the buying and selling of investments within a portfolio, and can also include banking and budgeting duties, as well as taxes.

3) What is Speculation?

Speculation refers to the act of conducting a financial transaction that has substantial risk of losing value but also holds the expectation of a significant gain or other major value.

4) What is risk?

Risk refers to the degree of uncertainty and/or potential financial loss inherent in an investment decision

5) What is systematic risk?

Systematic risk is the risk caused by macroeconomic factors within an economy and are beyond the control of investors or companies. This risk causes a fluctuation in the returns earned from risky investment

6) What is unsystematic risk?

Unsystematic risk is unique to a specific company or industry. Also known as “nonsystematic risk,” "specific risk," "diversifiable risk" or "residual risk," in the context of an investment portfolio, unsystematic risk can be reduced through diversification.

7) Give any two example for non-diversifiable risk.

Bond and Real estate

8) What is business risk?

Risk refers to the degree of uncertainty and/or potential financial loss inherent in an investment decision

9) what is industry?

Investment management is the business of investing other people's money. It is the “buy side” of the broader financial industry.

10) Classify industry analysis.

1) growth industry 2) cyclical industry

3)defensive industry 4) cyclical growth industry

11) Write a note on security.

A security is a fungible, negotiable financial instrument that represents some type of financial asset

12) What is fundamental analysis?

Fundamental analysis is performed on historical and present data, but with the goal of making financial forecasts.

13) What is technical analysis?

Technical analysis is a method of evaluating securities by analyzing the statistics generated by market activity, such as past prices and volume.

14) Who is called investment manager?

An investment manager is a person or organization that makes investments in portfolios of securities on behalf of clients under the investment objectives and parameters the client has defined.

15) What is industry analysis?

Industry analysis is a tool that facilitates a company's understanding of its position relative to other companies that produce similar products or services.

16) Describe the term technical indicator .

Technical indicators are used extensively in technical analysis to predict changes in stock

17) Who developed dow theory?

Dow Jone he is a person to developed a dow theory.

18) What is dow theory?

Dow Theory is an analysis that explores the relationship between the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Average (DJTA). When one of these averages climbs to an intermediate high, then the other is expected to follow suit within a reasonable amount of time.

19) Who developed Elliot wave principle?

Elliott Wave Theory was developed by Ralph Nelson Elliott

20) What is Elliot wave principle?

Elliott Wave Theory is an investment tool used to analyze financial market cycles and estimate future market trends taking into account the investor behavior as well as price highs and lows.

21) How to define industrial average?

Dow Theory is an analysis that explores the relationship between the Dow Jones Industrial Average (DJIA) and the Dow Jones Transportation Average (DJTA). When one of these averages climbs to an intermediate high, then the other is expected to follow suit within a reasonable amount of time.

22) What is charts?

The practice of using statistics to determine trends in security prices and make or recommend investment decisions based on those trends.

23) Classify types of charts.

The main chart types used by technical analysts are the line chart, bar chart, candlestick chart, Renko Chart, Point-and-Figure charts, etc.

24) Describe the chart patterns.

Chart patterns look at the big picture and help to identify trading signals – or signs of future price movements

25) What is portfolio?

- Diversification of risk in various securities.
- Allocation of money to various assets.

26) What is portfolio management?

Portfolio management is the art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance.

27) Write an example for portfolio.

Portfolios that are assembled to pay for a retirement are made up mainly of securities, such as stocks, bonds, mutual funds, money market funds and exchange traded funds.

28) What is portfolio construction?

Portfolio construction refers to a process of selecting the optimum mix of securities for the purpose of achieving maximum returns by taking minimum risk

29) What is optimal portfolio?

An efficient portfolio most preferred by an investor because its risk/reward characteristics approximate the investor's utility function. A portfolio that maximizes an investor's preferences with respect to return and risk.

30) List out any two risk free investments.

a) certificate of deposit b)Savings bank account

c) gold and silver

31)Write narrow sense in share price movement.

That is, narrowing the spread occurs when a potential buyer is willing to pay more for a security, when a potential seller is willing to accept less, or both.

32) What is bullish market?

The term "bull market" is most often used to refer to the stock market but can be applied to anything that is traded, such as bonds, real estate, currencies and commodities.

33) What is bearish market?

A bear market is a condition in which securities prices fall 20 percent or more from recent highs amid widespread pessimism and negative investor sentiment.

34) What is trend analysis?

Trend Analysis is a statistical technique that tries to determine future movements of a given variable by analyzing historical trends. In other words, it is a method that aims to predict future behaviors by examining past ones

35) Expand PIP

Portfolio Investment Process.

36) What is project?

It is a profitable investment proposal.

37) What is diversification?

Diversification is a risk management strategy that mixes a wide variety of investments within a portfolio.

38) What is portfolio diversification?

Portfolio diversification is the risk management strategy of combining a variety of assets to reduce the overall risk of an investment portfolio.

39) Who developed Markowitz model?

It was developed by Harry M.Markowitz.

40) What is Markowitz model?

Markowitz model is thus a theoretical framework for analysis of risk and return and their inter-relationships.

41) In which year Markowitz model developed.

It was developed in the year 1952.

42) Write the other names for Markowitz model.

Harry Markowitz model (HM model), also known as Mean-Variance Model

43) Expand-SIM

Sharpe Single Index Model

44) Who developed SIM model?

The model has been developed by William Sharpe in 1963 and is commonly used in the finance industry.

45) What is SIM model?

The single-index model (SIM) is a simple asset pricing model to measure both the risk and the return of a stock

46)Expand-CAPM

Capital Asset Pricing Model

47) What is CAPM model?

The capital asset pricing model (CAPM) is a model used to determine a theoretically appropriate required rate of return of an asset, to make decisions about adding assets to a well-diversified portfolio.

48) Who invented CAPM model.

The capital asset pricing model (CAPM, pronounced as "cap-m") was developed in 1952 by Harry Markowitz. It was later adapted by other economists and investors, including William Sharpe. CAPM describes the relationship between an investor's risk and the expected return.

49) what is multi factor model?

A multi-factor model is a financial model that employs multiple factors in its calculations to explain market phenomena and/or equilibrium asset prices.

K3 LEVEL QUESTIONS

1) State the nature of investment.
2) Narrate the scope of investment.
3) Distinguish speculation Vs gambling
4) Examine about gambling techniques
5) Apply an fundamental analysis in a company
6) Illustrate growth cycle of an industry
7) Arrange the investment classification of industries
8) Describe growth cycle of industry
9) Distinguish fundamental Vs industry analysis
10) Interpret the technical analysis
11) Distinguish technical Vs fundamental analysis
12) Analyse the dow theory
13) Apply Elliot wave principle for share price movement
14) List out types of charts
15) Show the limitations of chart
16) Construct the objective of portfolio management

17) Predict scope of portfolio management
18) Assess basic principles of portfolio management
19) Describe a note on portfolio models
20) Write a short note on SIM model
21) Find the criticism on Markowitz model
22) State the basic objectives of Markowitz model
23) Criticism of Single Index model
24) Write a brief note on portfolio construction
25) Portfolio construction and portfolio management- Discuss

K4 LEVEL QUESTIONS

1) Describe the features of investment programme.
2) Classify the types of risks.
3) How investment differ from speculation and gambling
4) Concept of industry- Justify
5) Ascertain the investment classification of industries
6) Justify the company analysis with suitable examples.
7) Evaluate the methods of company analysis
8) Outline for charting as a technical tool
9) Categorize technical and fundamental analysis
10) Classify the forms of efficient market hypothesis
11) Assess the technical indicators
12) Explain nature and scope of portfolio management
13) Summarize kinds of portfolio analysis
14) Explain the forms of diversification of investments
15) Implement the portfolio investment process
16) Criticism the Markowitz model
17) Sharpe single index model were evolved to overcome the Markowitz model-Justify your answer
18) Evaluate the capital asset pricing model.
19) Compare single and multiple factor model based on their factors.