

Personal Financial Planning

Multiple Choice Questions.

Q.no	Questions	Answer
1	1. Investment is the _____ A. net additions made to the nation's capital stocks B. persons commitment to buy a flat or house C. employment of funds on assets to earn returns D. employment of funds on goods and services that are used in production process	C
2	2. Speculator is a person _____ A. who evaluates the performance of the company B. who uses his own funds only C. who is willing to take high risk for high returns D. who considers here says and market behaviours	C
3	3. Which one of the following is not a money market securities? A. Treasury bills B. National savings certificate C. Certificate of deposit D. Commercial paper	B
4	4. Commercial papers are _____ A. unsecured promissory notes B. secured promissory notes C. sold at a premium D. Issued for a period of 1 to 2 years	A
5	5. Registrar to the issue _____ A. helps in the appointment of lead managers B. drafts the prospectus C. recommends the basis of allotment D. directs the various agencies involved in the issue	C
6	6. The underwriter has to take up _____ A. the fixed portions of the issue capital B. the agreed portion of the unsubscribed part C. the agreed portion or can refuse if D. the unfixed portions of the issue capital	B
7	7. An example of a derivative security is _____ A. a common share of General Motors B. a call option on Mobil stock. C. a commodity futures contract D. B and C	D

8	8. 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	A
9	9. Most 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 will always invest in the investment with the lowest possible risk. D. They avoid the stock market due to the high degree of risk.	C
10	10. 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.	A
11	11. Are financial assets. A. bonds B. Machines C. stocks D. A&C	D
12	12. Investment decision making traditionally consists of two steps_ A. Investment banking and security analysis. B. Buying and selling. C. Risk and expected return. D. Security analysis and portfolio management.	D
13	13. The rise of the Internet has_____. A. Greatly increased the cost of security trading. B. Significantly democratized the flow of investment information. C. Led to fewer number of discount brokers. D. Led to large amounts of security fraud.	A
14	14. Savings accounts are_____but are not_____. A. Negotiable; liquid. B. Marketable; liquid. C. Liquid; personal. D. Liquid; marketable.	C

15	15. Treasury bills are traded in the__. A. Money market. B. Capital market. C. Government market. D. Regulated market.	A
16	16. 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	C
17	17. The coupon rate is another name for the_____. A. Market interest rate. B. Current yield. C. Stated interest rate. D. Yield to maturity	A
18	18. Dividends are paid _____. A. Monthly. B. Quarterly. C. Semi-annually. D. Yearly.	D
19	19. If an investor states that Intel is overvalued at 65 times, he is referring to_____. A. Earnings per share. B. Dividend yield. C. Book value. D. P/E Ratio	B
20	20. If a preferred stock issue is cumulative, this means_____. A. Dividends are paid at the end of the year. B. Dividends is legally binding on the corporation. C. Unpaid dividends will be paid in the future. D. Unpaid dividends are never	C
21	21. The most popular type of investment company is a_____. A. Unit investment trust. B. Mutual fund. C. Closed-end investment company. D. Real estate investment trust	A

22	<p>22. An unmanaged fixed income security portfolio handled by an independent trustee is known as a _____.</p> <p>A. Junk bond fund. B. Closed-end investment company. C. Unit investment trust. D. Hedge fund</p>	D
23	<p>23. A major difference between a closed-end investment company and an open-end investment company is that_____.</p> <p>A. Closed-end investment companies are generally much riskier. B. Their security portfolios are substantially different. C. Closed-end investment companies are passive investments and open-ends are not. D. Closed-end companies have a more fixed capitalization</p>	B
24	<p>24. Which of the following generally traded on stock exchanges?</p> <p>A. Unit investment trusts B. Closed-end investment companies C. Open-end investment companies D. All trade on stock exchanges</p>	D
25	<p>25. It is not important to have a secondary market for mutual funds because_____.</p> <p>A. Investors hold the securities till maturity. B. Investors trade between themselves. C. Investors sell their shares back to the company. D. Banks will cash their shares as long as they have accounts at the bank.</p>	D
26	<p>26. A group of mutual funds with a common management are known as_____.</p> <p>A. Fund syndicates. B. Fund conglomerates. C. Fund families. D. Fund complexes</p>	C
27	<p>27. If NAV > market price of a fund, then the fund_____.</p> <p>A. Is selling at a discount. B. Is selling at a premium. C. Is an index fund. D. Is an exchange traded fund</p>	B
28	<p>28. Mutual funds may be affiliated with an under writer. This means_____.</p> <p>A. The underwriter has an exclusive right to distribute shares. B. The underwriter selects the securities in the portfolio.</p>	A

	<p>C. There is no risk to the issuer of the mutual fund. D. There is no risk to the investor of the mutual fund.</p>	
29	<p>29. In an underwriting arrangement, the risk is assumed by the____ A. Issuer of the security. B. Investment bankers. C. Commercial bankers. D. Institutional Investors</p>	A
30	<p>30. The_____ is a window through which the investor can see the company. A. Syndicate offer. B. IPO. C. Prospectus. D. Shelf rule.</p>	C
31	<p>31. Investment bankers are compensated by_____ A. The underwriting spread. B. Commissions paid by the buyers of the security. C. Commission paid by the sellers of the security. D. Guaranteed investment</p>	D
32	<p>32. Investment bankers operate in the_____ A. Primary market. B. Secondary market. C. Third market. D. Fourth market.</p>	A
33	<p>33. Which exchange member is assigned to a specific trading post? A. Commission broker. B. Floor trader. C. Specialist. D. Dealer.</p>	C
34	<p>34. A computerized trading network that matches buy and sell orders electronically entered by customers is a_ A. National markets system. B. Electronic communications networks. C. Internet investment service. D. Global investment network</p>	B
35	<p>35. If an investor is attempting to buy a stock that is very volatile, it would be best to use_____ A. Market order. B. Limit order. C. Stop-loss order.</p>	B

	D. Contingency order.	
36	36. Which of the following has helped to eliminate the use of stock certificates by placing stock transactions on computers? A. Demat account. B. Securities Exchange Commission. C. Depository Trust Company. D. Federal Depository Insurance Corporation	A
37	37. All new issues being offered for public sale are registered with____ A. SEBI. B. New issue market. C. Maloney act of 1936. D. Securities investor protection act of1970.	B
38	38. Total return is equal to_____ A. Capital gain + price change. B. Yield + income. C. Capital gain - loss. D. Yield + price change.	A
39	39. The return component that gives periodic cash flows to the investor is known as the _____ A. Capital gain. B. Interest rate. C. Yield. D. Unrealized gain.	C
40	40. Investors should be willing to invest in riskier investments only____ A. If the term is short. B. If there are no safe alternatives except for holding cash. C. If the expected return is adequate for the risk level. D. If they are true speculators.	D
41	41. If interest rates are expected to rise, you would expect_____ A. Bond prices to fall more than stock prices. B. Bond prices to rise more than stock prices. C. Stock prices to fall more than bond prices. D. Stock prices to rise and bond prices to fall.	A
42	42. Financial risk is most associated with_____ A. The use of equity financing by corporations. B. The use of debt financing by corporations. C. Equity investments held by corporations. D. Debt investments held by corporations.	B

43	43. Political stability is the major factor concerning_____. A. Exchange risk. B. Systematic risk. C. Non-systematic risk. D. Country risk.	D
44	44. Liquidity risk_____. A. Is the risk that investment bankers normally face? B. Is lower for small OTCEI stocks than for large NSE stocks. C. Is the risk associated with secondary market transactions? D. Increases whenever interest rates increase.	D
45	45. 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.	A
46	46. Financial disclosure regulations affecting the brokerage industry are a type of_____. A. Market risk. B. Financial risk. C. Business risk. D. Liquidity risk.	C
47	47. If interest rates rose, you would expect_____ to also rise. A. Business risk. B. Financial risk. C. Liquidity risk. D. Inflation risk.	C
48	48. Total return as defined in the text is_____. A. The difference between the sale price and the purchase price of an investment. B. Measured by dividing the sum of all cash flows received by the amount invested. C. The reciprocal of a return relative. D. Measured by dividing all cash flows received by its selling price.	B
49	49. The_____ is stated on the basis of 1.0. A. Total return. B. Return relative.	A

	C. Cumulative wealth index. D. Geometric mean.	
50	50. The return relative solves the problem of _____. A. Inflation. B. Negative returns. C. Interest rates. D. Tax differences.	A
51	51. In order to determine the compound growth rate of an investment over some period, an investor would calculate the _____. A. Arithmetic mean. B. Geometric mean. C. Calculus mean. D. Arithmetic median.	A
52	52. A major difference between real and nominal returns is that _____. A. Real returns adjust for inflation and nominal returns do not. B. Real returns use actual cash flows and nominal returns use expected cash flows. C. Real returns adjust for commissions and nominal returns do not. D. Real returns show the highest possible return and nominal returns show the lowest possible return.	B
53	53. When most people refer to the mean, they are referring to the _____. A. Median. B. Arithmetic mean. C. Geometric mean. D. Cumulative mean.	B
54	54. Portfolio weights are found by _____. A. Dividing standard deviation by expected value. B. Calculating the percentage each asset is to the total portfolio value. C. Calculating the return of each asset to total portfolio return. D. Dividing expected value by the standard deviation.	B
55	55. In order to determine the expected return of a portfolio, all of the following must be known except _____. A. Probabilities of expected returns of individual assets. B. Weight of each individual asset to total portfolio value. C. Expected return of each individual asset. D. All of the above must be known in order to determine the expected return of a portfolio.	D
56	56. Which of the following is true regarding the expected return	C

	<p>of a portfolio?</p> <p>A. It is a weighted average only for stock portfolios. B. It can only be positive. C. It can never be above the highest individual return. D. All of the above are true.</p>	
57	<p>57. The relevant risk for a well-diversified portfolio is _____</p> <p>A. Interest rate risk. B. Inflation risk. C. Business risk. D. Market risk.</p>	D
58	<p>58. Which of the following portfolios has the least reduction of risk?</p> <p>A. A portfolio with securities all having positive correlation with each other. B. A portfolio with securities all has zero correlation with each other. C. A portfolio with securities all having negative correlation with each other. D. A portfolio with securities all has skewed correlation with each other.</p>	A
59	<p>59. Portfolio risk is best measured by the _____.</p> <p>A. Expected value. B. Portfolio beta. C. Weighted average of individual risk. D. Standard deviation.</p>	C
60	<p>60. Markowitz's main contribution to portfolio theory is _____</p> <p>A. That risk is the same for each type of financial asset. B. That risk is a function of credit, liquidity and market factors. C. Risk is not quantifiable. D. Insight about the relative importance of variances and co variances in determining portfolio risk.</p>	B
61	<p>61. The major problem with the Markowitz model is its _____</p> <p>A. Lack of accuracy. B. Predictability flaws. C. Complexity. D. Inability to handle large number of inputs.</p>	A
62	<p>1. According to Markowitz, rational investors will seek efficient portfolios because these portfolios are optimal based on _____.</p>	C

	<p>A. Expected return. B. Risk. C. Expected return and risk. D. Transactions costs.</p>	
63	<p>62. Portfolios lying on the upper right portion of the efficient frontier are likely to be chosen by _____.</p> <p>A. Aggressive investors. B. Conservative investors. C. Risk-averse investors. D. Defensive investors.</p>	B
64	<p>1. Market risk is best measured by the _____.</p> <p>A. Alpha. B. Beta. C. Standard deviation. D. Coefficient of variation.</p>	D
65	<p>65. Book value is _____.</p> <p>A. The same as market value. B. A more accurate valuation technique than the dividend models. C. The accounting value of the firm as reflected in the financial statements. D. The same as liquidation value.</p>	C
66	<p>66. The price to book value ratio tends to be close for _____.</p> <p>a. High-tech companies. b. Banks. c. Utilities. d. Service companies.</p>	D
67	<p>67. The central issue of efficient markets concerns _____.</p> <p>a. Regulations. b. Information. c. Participants. d. Structure</p>	A
68	<p>68. A bond issue is broken up so that some investors will receive only interest payments while others will receive only principal payments, which is an example of _____.</p> <p>a. bundling b. un-bundling c. financial engineering d. B&D</p>	D

69	69. The highest level of market efficiency is _____. a. Weak form efficiency. b. Semi-strong form efficiency. c. Random walk efficiency. d. Strong form efficiency	D
70	70. The last step in fundamental analysis is _____. a. Economic analysis. b. Industry analysis. c. Company analysis. d. Technical analysis.	D
71	71. Money market funds were a financial innovation partly inspired to circumvent _____. a. Regulation Q, which is no longer in existence b. Regulation M c. Regulation D d. Regulation B, which is still in existence	A
72	72. In which of the following sections of a balance sheet are "Inventories" listed? a. Current assets. b. Property, plant and equipment, at cost. c. Current liabilities. d. Shareholders' Equity.	A
73	73. The key item for investors on the income statement is _____. a. Sales. b. Gross profit. c. Operating expenses. d. After-tax net income.	D
74	74. Are a way U. S. investor can invest in foreign companies? a. ADRs b. IRAs c. SDRs d. GNMA's	A
75	75. A model for optimizing the selection of securities is the _____. a. Miller-Orr. b. Black-Sholes. c. Markowitz. d. Gordon.	C
76	76. Which of the following is not normally one of the reasons for a change in an investor's circumstances? a. Change in market conditions. b. Change in legal considerations.	A

	<ul style="list-style-type: none"> c. Change in time horizon. d. Change in tax circumstances. 	
77	<p>77. The material wealth of a society is equal to the sum of _____</p> <ul style="list-style-type: none"> a. All financial assets. b. All real assets. c. All financial and real assets. d. All physical assets. 	C
78	<p>78. Are financial assets.</p> <ul style="list-style-type: none"> a. Bonds b. Machines. c. Stocks. d. Real estate. 	B
79	<p>79. Is example of financial intermediaries?</p> <ul style="list-style-type: none"> a. Commercial banks. b. Insurance companies. c. Insurance companies. d. Credit unions. 	C
80	<p>80. Investment bankers perform the following role _____.</p> <ul style="list-style-type: none"> a. Market new stock and bond issues for firms. b. Provide advice to the firms as to market conditions, price, etc. c. Design securities with desirable properties. d. All of the above. 	B
81	<p>81. Asset allocation affects the investor's return by _____</p> <ul style="list-style-type: none"> a. Altering the returns on individual assets. b. Weighting the portfolio return by the allocation. c. Assuring diversification. d. Increasing the investor's use of mutual funds. 	B
82	<p>82. Diversification reduces</p> <ul style="list-style-type: none"> a. Interest rate risk b. Market risk c. Unique risk d. Inflation risk 	C
83	<p>83. The expected return on an investment in stock is _____</p> <ul style="list-style-type: none"> a. The expected dividend payments. b. The anticipated capital gains. c. The sum of expected dividends and capital gains. d. Less than the realized return. 	D
84	<p>84. Investment professionals whose jobs may depend on</p>	A

	<p>their performance relative to the market are the_____.</p> <p>a. Registered representatives. b. Security analysts. c. Investment bankers. d. Portfolio managers.</p>	
85	<p>85. Underlying all investments is the tradeoff between_____</p> <p>e. expected return and actual return f. low risk and high risk g. actual return and high risk h. Expected return and risk.</p>	D
86	<p>86. Mumbai stock exchange was recognized on a permanent basis in</p> <p>A. 1950. B. 1956. C. 1957. D.1965.</p>	C
87	<p>87. The growth in book value per share shows the</p> <p>—</p> <p>a. Rise in share price. b. Increase in physical asset of the firm. c. Increase in net worth. d. Growth in reserves.</p>	D
88	<p>88 International investing is_____.</p> <p>A. Is only practical for institutional investors. B. Increases the overall risk of a stock portfolio. C. Always leads to higher returns than a domestic portfolio. D. Can reduce risk due to increased</p>	C
89	<p>88. Mr. A is a daring portfolio manager. He wants to increase the return in his portfolio. He should choose stocks from_____.</p> <p>a. Defensive industry. b. Industry at a growth stage. c. Industry in the maturity period. d. Industry with more export potential.</p>	B
90	<p>89 in the weekly efficient market, the stock price reflects,</p> <p>a. the company's financial performance b. the past price of the scrip c. the demand for the scrip d. the past price and traded volumes</p>	D
91	<p>91. What is the primary goal of financial management? A) To minimize the risk</p>	B

	<p>B) To maximize the return</p> <p>C) To maximize the owner's wealth</p> <p>D) To raise profit</p>	
92	<p>92. A technique uses in comparative analysis of financial statement is</p> <p>A. graphical analysis</p> <p>B. preference analysis</p> <p>C. common size analysis</p> <p>D. returning analysis</p>	C
93	<p>93. Price per share is \$30 and an earnings per share is \$3.5 then price for earnings ratio would be</p> <p>A. 8.57 times</p> <p>B. 8.57%</p> <p>C. 0.11 times</p> <p>D. 11%</p>	A
94	<p>94. Price per share is \$25 and cash flow per share is \$6 then price to cash flow ratio would be</p> <p>A. 0.24 times</p> <p>B. 4.16 times</p> <p>C. 4.16%</p> <p>D. 24%</p>	B
95	<p>95. Low price for earnings ratio is result of</p> <p>A. low riskier firms</p> <p>B. high riskier firms</p> <p>C. low dividends paid</p> <p>D. high marginal rate</p>	A
96	<p>96. Formula such as net income available for common stockholders divided by total assets is used to calculate</p> <p>A. return on total assets</p> <p>B. return on total equity</p> <p>C. return on debt</p> <p>D. return on sales</p>	A
97	<p>97. Price per share divided by earnings per share is formula for calculating</p> <p>A. price earnings ratio</p> <p>B. earning price ratio</p> <p>C. pricing ratio</p> <p>D. earnings ratio</p>	A
98	<p>98. A point where profile of net present value crosses horizontal axis at plotted graph indicates project</p> <p>A. costs</p> <p>B. cash flows</p> <p>C. internal rate of return</p>	C

	D. external rate of return	
99	99. Present value of future cash flows is \$2000 and an initial cost is \$1100 then profitability index will be A. 55% B. 1.82 C. 0.55 D. 1.82%	B
100	100. Other factors held constant, greater project liquidity is because of A. less project return B. greater project return C. shorter payback period D. greater payback period	C
101	101. First step in calculation of net present value is to find out A. Present value of equity B. future value of equity C. present value cash flow D. future value of cash flow	C
102	102. Life that maximizes net present value of an asset is classified as A. minimum life B. present value life C. economic life D. transaction life	C
103	103. In estimating value of cash flows, compounded future value is classified as its A. terminal value B. existed value C. quit value D. relative value	A
104	104. An bond whose price will rise above its face value is classified as A. premium face value B. premium bond C. premium stock D. premium warrants	B
105	105. NUK Company has paid annual dividends of \$1.40, \$1.75, and \$2.00 a share over the past three years, respectively. The company now predicts that it will maintain a constant dividend since its business has levelled off and sales are expected to remain relatively constant. Given the lack of future growth, you will only buy this stock if you can earn at least a 12% rate of return. What is the maximum amount you are willing to pay to buy one share today? \$10.00 b. \$13.33 c. \$16.67 d. \$18.88 e. \$20.00	C

106	106. Reinvestment risk of bond's is usually higher on A. income bonds B. callable bonds C. premium bonds D. default free bonds	B
107	107. An effect of interest rate risk and investment risk on a bond's yield is classified as A. reinvestment premium B. investment risk premium C. maturity risk premium D. defaulter's premium	C
108	108. Free cash flow is \$12000, an operating cash flow is \$4000, an investment outlay cash flow is \$5000 then salvage cash flow would be A. -\$21000 B. \$21,000 C. -\$3000 D. \$3,000	D
109	109. Federal government tax revenues if it exceeds government spending then it is classified as A. budget surplus B. budget deficit C. federal reserve D. federal budget	A
110	110. Markets where assets are bought or sold within a few days or at some future dates are classified as A. spot markets B. future markets C. Both A and B D. financial instruments	C
111	111. Which of the following is a tax saving investment? A) Fixed deposit B) Shares C) NSC D) PPF	D
112	112. Which of the following is not a financial investment? A) Purchase of shares B) Purchase of bonds C) Purchase of car D) Purchase of debentures	C
113	113. The fundamental analysis approach has been associated with _____. A) Uncertainties B) Certainties C) Ratios D) Balance sheet	A
114	114. The object of portfolio is to reduce _____ by diversification.	B

	<p>A) Return B) Risk C) Uncertainty D) Percentage</p>	
115	<p>115. Which of the following is not a characteristic of a money market instrument? A. liquidity B. marketability C. long maturity D. liquidity premium</p>	C
116	<p>116. Assets allocation refers to ----- A. choosing which securities to hold based on their valuation B. investing only in "safe" securities C. the allocation of assets into broad assets classes D. bottom -up analysis</p>	C
117	<p>117. Commercial banks differ from other businesses in that both their assets and their liabilities are mostly A. illiquid B. financial C. real D. owned by the government</p>	B
118	<p>118. Which of the following is a reason for selecting a mutual fund? A. its historic return B. high tax efficiency C. charging 12b-1 fees instead of load fees D. often realizing portfolio gains</p>	D
119	<p>119. ----- are not financial assets A. bonds B. machines C. stocks D. equities</p>	B
120	<p>120. Which of the following is not normally one of the reason for a change in a investors circumstances? A. change in market conditions B. change in legal considerations C. change in time horizon D. change in tax circumstances</p>	A



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