



# Fin630 MID TERM 6 PAPERS

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*Solved by*

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## Paper 1

MID TERM EXAMINATION  
2009 fin630

Question No: 1 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ are qualified and regulated professionals who trade shares and other securities through market makers on behalf of investors.

▶ **Stock brokers**

- ▶ Members
- ▶ Specialists
- ▶ Day traders

**A stock broker is a qualified and regulated professional who buys and sells shares and other securities through market makers on behalf of investors.**

<http://onlinetradingtutorial.org/brief-description-basics-of-online-share-trading>

Question No: 2 ( Marks: 1 ) - Please choose one

Which of the following function removes the fear of buying or selling at rip off price?

▶ **Fair pricing function**

- ▶ Continuous pricing function

- ▶ Economic function
- ▶ Exchange function

**(handout page 7) The fair price function removes the fear of buying or selling at rip off price.**

Question No: 3 ( Marks: 1 ) - Please choose one

Which function of capital market facilitates transfer of money from savers to borrowers?

- ▶ **Economic function**
- ▶ Fair pricing function
- ▶ Exchange function
- ▶ Continuous pricing function

**(Handout page 5) The most important function is the economic function. This mechanism facilitates the transfer of money from savers to borrowers.**

Question No: 4 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ is a computerized device that relays financial information to investors around the world, including the stock symbol, the latest price and the volume of securities as they are traded.

- ▶ Super Dot
- ▶ NYSE Direct
- ▶ **Ticker tape**
- ▶ Trading Curb

**<http://www.investhub.com/glossary/Ticker-tape.htm>**

**ticker tape** Computerized device that relays to investors around the world the stock symbol and the latest price and volume on securities as they are traded.

Question No: 5 ( Marks: 1 ) - Please choose one

Companies that have historically paid a larger than average percentage of their profit as dividend to their shareholders is known as:

- ▶ Blue chip companies
- ▶ Cyclical companies
- ▶ Growth companies
- ▶ **Income companies**

**(Handout page 24) Income stocks are those that have historically paid a larger than average percentage of their NIAT as dividend to their shareholders.**

Question No: 6 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ think that supply and demand factors play the most important part.

- ▶ Ratio analysts
- ▶ **Technical analysts**
- ▶ Research analysts
- ▶ Fundamental analysts

**(Handout page 40) Technical analysts think supply and demand factors play the most important role.**

Question No: 7 ( Marks: 1 ) - Please choose one

According to Dow Theory, primary trend is a:

- ▶ Short term trend
- ▶ **Long term trend**
- ▶ Medium term trend
- ▶ None of the given options

**(Handout page 67) The primary trend is the long-term direction of the market and is**

### the most important.

Question No: 8 ( Marks: 1 ) - Please choose one

Which of the following statement is FALSE about Elliot Wave Theory?

- ▶ It made extensive use of Fibonacci series
- ▶ It is based on repeating 8 waves' cycles
- ▶ **It identified three movements in security prices**
- ▶ It was proposed by R.N. Elliot

### Technical Analysis

**R.N. Elliot formulated this idea in a series of articles in Financial World in 1939. Elliot believed that the market has a rhythmic regularity that can be used to predict future prices.**

**The Elliot Wave Principle is based on a repeating 8-wave cycle, and each cycle is made up of similar shorter-term cycles ("Big fleas have little fleas upon their backs to bite 'em - little fleas have smaller fleas and so on ad infinitum").**

**Elliot Wave adherents also make extensive use of the Fibonacci series**

Question No: 9 ( Marks: 1 ) - Please choose one

The idea of long term business cycle with a period of 50-60 years was proposed in which of the following theory?

- ▶ **Kondratev Wave Theory**
- ▶ Dow Theory
- ▶ Elliot Wave Theory
- ▶ None of the given options

**(Handout page 68) Kondratev wave theory states there is a 50- to 60-year business cycle.**

Question No: 10 ( Marks: 1 ) - Please choose one

Current ratio is also known as:

- ▶ **Working capital ratio**
- ▶ Acid test ratio
- ▶ Debt coverage ratio
- ▶ Dividend yield ratio

**(Handout page 82) current ratio is also known as the working capital ratio and is normally presented as a real ratio.**

Question No: 11 ( Marks: 1 ) - Please choose one

A ratio that indicates the extent to which a firm could pay its current liabilities without relying on the sale of inventory is known as:

- ▶ Current ratio
- ▶ **Quick ratio**
- ▶ Inventory turnover ratio
- ▶ Debt coverage ratio

**Quick Ratio: Quick ratio focuses on immediate liquidity (i.e., cash, accounts receivable, etc.) but specifically ignores inventory. Also called the acid test ratio, it indicates the extent to which you could pay current liabilities without relying on the sale of inventory.**

[http://www.missouribusiness.net/sbt/dc/docs/financial\\_ratios.asp](http://www.missouribusiness.net/sbt/dc/docs/financial_ratios.asp)

Question No: 12 ( Marks: 1 ) - Please choose one

Which of the following ratio depicts a firm's ability to cover its short-term obligations?

- ▶ Dividend yield ratio
- ▶ Return on assets ratio
- ▶ Debt coverage ratio

▶ **Current ratio**

**(Handout page 83) Positive working capital means that the company is able to pay off its short-term liabilities**

Question No: 13 ( Marks: 1 ) - Please choose one

Which of the following ratios would NOT be used to draw a conclusion about a company's managerial effectiveness?

- ▶ Return on investment
- ▶ Return on equity
- ▶ Net margin

▶ **Price-Earnings ratio**

**(question 7)**[http://highered.mcgraw-hill.com/sites/0073526797/student\\_view0/chapter13/multiple\\_choice\\_quiz.html](http://highered.mcgraw-hill.com/sites/0073526797/student_view0/chapter13/multiple_choice_quiz.html)

Question No: 14 ( Marks: 1 ) - Please choose one

Which of the following functions do mutual fund companies perform for their investors?

- ▶ Record keeping and administration
- ▶ Professional management
- ▶ Diversification and divisibility

▶ **All of the given options**

**(question 4)**[http://highered.mcgraw-hill.com/sites/007338237x/student\\_view0/chapter4/multiple\\_choice\\_quiz.html](http://highered.mcgraw-hill.com/sites/007338237x/student_view0/chapter4/multiple_choice_quiz.html)

Question No: 15 ( Marks: 1 ) - Please choose one

Which of the following is defined as an unmanaged, fixed-income security portfolio put together by a sponsor and handled by an independent trustee?

▶ **Unit investment trust**

- ▶ Closed-end investment
- ▶ Open-end investment
- ▶ Money market fund

**(Handout page 131) Unit Investment Trusts:**

**An alternative form of. Investment Company that deviates from the normal managed type is the unit -investment trust, (OIT), which typically is an unmanaged, fixed-income security portfolio put together by a sponsor and handled by an independent trustee.**

Question No: 16 ( Marks: 1 ) - Please choose one

Which of the following stocks would be expected to adversely impact during periods of high interest rates?

- ▶ Consumer durable shocks

▶ **Interest-sensitive stocks**

- ▶ Capital goods stocks
- ▶ Defensive stocks

**(handout page 140) interest-sensitive stocks would be expected to be adversely impacted during periods of high interest rates, and such periods tend to occur at the latter stages**

**of the business cycle.**

Question No: 17 ( Marks: 1 ) - Please choose one

If an investor wants to avoid transaction costs, which of the following strategy should he select?

- ▶ Active strategy
- ▶ Defensive strategy
- ▶ **Buy and hold strategy**
- ▶ Sector rotation

**(page 138)Buy-And-Hold Strategy:**

**A buy-and-hold strategy means exactly that an investor buys stocks and basically holds them until some future time in order to meet some objective. The emphasis is on avoiding transaction costs, additional search costs, and so forth.**

Question No: 18 ( Marks: 1 ) - Please choose one

Technical analysts \_\_\_\_\_ fundamental analysis.

- ▶ Always incorporate
- ▶ **Does not deny the value of**
- ▶ Reject the value of
- ▶ Have no connection with

**(question 8)**[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0073405175/student_view0/chapter9/multiple_choice_quiz.html)

[hill.com/sites/0073405175/student\\_view0/chapter9/multiple\\_choice\\_quiz.html](http://highered.mcgraw-hill.com/sites/0073405175/student_view0/chapter9/multiple_choice_quiz.html)

Question No: 19 ( Marks: 1 ) - Please choose one

Who was the grand father of technical analysis?

- ▶ Harry Markowitz
- ▶ William Sharpe
- ▶ **Charles Dow**
- ▶ Benjamin Graham

**(Handout page 67)Charles Dow was one of the founders of Dow Jones & Co. (DJ, NYSE), publisher of The Wall Street Journal.**

**(Question 18)**

[http://webcache.googleusercontent.com/search?q=cache:iO6jd\\_D\\_GPOJ:www2.cob.ilstu.edu/gnnaidu/Tb/Chap012.RTF+Who+was+the+grand+father+of+technical+analysis%3F&cd=3&hl=en&ct=clnk&source=www.google.com](http://webcache.googleusercontent.com/search?q=cache:iO6jd_D_GPOJ:www2.cob.ilstu.edu/gnnaidu/Tb/Chap012.RTF+Who+was+the+grand+father+of+technical+analysis%3F&cd=3&hl=en&ct=clnk&source=www.google.com)

Question No: 20 ( Marks: 1 ) - Please choose one

The direct trade between large institutional investors takes place in which of the following market?

- ▶ Primary market
- ▶ Secondary market
- ▶ Third market
- ▶ **Fourth market**

**(Handout page 12)Direct trades between large institutional investors comprise the fourth market.**

Question No: 21 ( Marks: 1 ) - Please choose one

Which of the following statement is TRUE about value investors?

- ▶ **They are patient**
- ▶ They seek rapidly growing companies
- ▶ They are speculators
- ▶ They seek slow growing companies

(page 88) [http://books.google.com/books?id=-J3rVW9qvdeC&pg=PA88&lpg=PA88&dq=%22value+investors+are+patient%22&source=bl&ots=nFYEE-hIjy&sig=CEXXKS47PUmo8FNm7mlacKcT\\_aA&hl=en&ei=oOt9Tf\\_xNpDIrOeRxyYi-Dg&sa=X&oi=book\\_result&ct=result&resnum=7&sqi=2&ved=0CDsQ6AEwBg#v=onepage&q=%22value%20investors%20are%20patient%22&f=false](http://books.google.com/books?id=-J3rVW9qvdeC&pg=PA88&lpg=PA88&dq=%22value+investors+are+patient%22&source=bl&ots=nFYEE-hIjy&sig=CEXXKS47PUmo8FNm7mlacKcT_aA&hl=en&ei=oOt9Tf_xNpDIrOeRxyYi-Dg&sa=X&oi=book_result&ct=result&resnum=7&sqi=2&ved=0CDsQ6AEwBg#v=onepage&q=%22value%20investors%20are%20patient%22&f=false)

Question No: 22 ( Marks: 1 ) - Please choose one  
In point and figure chart, what does X indicates?

- ▶ **Market price is going up**
- ▶ Market price is going down
- ▶ Market price remains constant
- ▶ Market price is fluctuating

(Handout page 56) The X represents the prices increase and the O represents the price decline. [http://www.incrediblecharts.com/technical/point\\_figure\\_chart.php](http://www.incrediblecharts.com/technical/point_figure_chart.php)

Question No: 23 ( Marks: 1 ) - Please choose one  
Which of the following statement about a security is true, if it's beta > 1.0?

- ▶ **Security is more risky than the market**
- ▶ Security is less risky than market
- ▶ Security is exactly as risky as maket
- ▶ It is not possible to predict riskiness of a security by beta

(Handout page 137) A stock with a beta lower than 1.0 has a required rate of return below  $k_M$ , because its risk (beta) is less than that of the market. On the other hand, a stock with a beta greater than 1.0 has a required rate of return greater than that of the market.

Question No: 24 ( Marks: 1 ) - Please choose one  
Which of the following is a characteristic of line chart?

- ▶ It is efficient in showing more details
- ▶ **It is simplest and most familiar chart**
- ▶ It show the highest degree of accuracy
- ▶ It can be used for comparing three values

(Handout page 55) The line chart is the simplest and most familiar.

Question No: 25 ( Marks: 1 ) - Please choose one  
In a candlestick chart, what does black body candle depict?

- ▶ Prices are moving up
- ▶ **Prices are moving down**
- ▶ Prices are constant
- ▶ Prices are fluctuating

(page 56) The principle difference between a daily candlestick chart and a bar chart is the white and black candles augmenting the daily trading range lines. White candles represent stock advances, with black candle representing declines.

Question No: 26 ( Marks: 1 ) - Please choose one  
Who has introduced the On Balance Volume technique of technical analysis?

- ▶ Charles Dow
- ▶ **Joseph Granville**
- ▶ John Bollinger

► Welles Wilder

(Page 150)

[http://books.google.com/books?id=AmQh8Zm34zgC&pg=PA150&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPprOe1iaH9Bg&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CC0Q6AEwAA#v=onepage&q&f=false](http://books.google.com/books?id=AmQh8Zm34zgC&pg=PA150&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPprOe1iaH9Bg&sa=X&oi=book_result&ct=result&resnum=1&ved=0CC0Q6AEwAA#v=onepage&q&f=false)

(PAGE 416)

[http://books.google.com/books?id=I5SgX5q5sQEC&pg=PA416&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPprOe1iaH9Bg&sa=X&oi=book\\_result&ct=result&resnum=4&ved=0CD0Q6AEwAw#v=onepage&q&f=false](http://books.google.com/books?id=I5SgX5q5sQEC&pg=PA416&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPprOe1iaH9Bg&sa=X&oi=book_result&ct=result&resnum=4&ved=0CD0Q6AEwAw#v=onepage&q&f=false)

Question No: 27 ( Marks: 1 ) - Please choose one

Which of the following is calculated by dividing gross profit by net sales?

► **Gross margin**

- Operating margin
- Net margin
- Profit margin

(Handout page 83) **Gross Profit Margin = Gross Profit / Net Sales \* 100**

Question No: 28 ( Marks: 1 ) - Please choose one

When a company's market value is divided by sales, it is known as:

► **Net income margin**

- Price-to-market value ratio
- Price-to-book value ratio
- Price-to-sales ratio

(Handout page 107) **Net income margin = Net income/Sales**

Question No: 29 ( Marks: 1 ) - Please choose one

Which of the following is TRUE regarding price earning ratio?

- P/E=Earnings available to common stockholders/outstanding shares
- P/E=Market price per share/dividend per share
- **P/E=Market price per share/earning per share**
- P/E=Dividend per share/earning per share

(Handout page 86) **P/E = Current Market Share Price / EPS**

Question No: 30 ( Marks: 1 ) - Please choose one

Which of the following situations implies an upward sloping curve?

► **Accelerating economic activity**

- Static economic activity
- Slowing economic activity
- A recession period

[Economy/Market Analysis](#)

**Upward sloping and steepening curve implies accelerating economic activity**

## **Paper 2**

MIDTERM EXAMINATION

Spring 2009

FIN630- Investment Analysis & Portfolio Management (Session - 2)

Question No: 1 ( Marks: 1 ) - Please choose one  
Which one of the following financial instruments represents an ownership share in a corporation?

▶ **Common stock**

- ▶ Bond
- ▶ Preferred stock
- ▶ Term Finance certificates

(Handout page 24) common shares represent an ownership interest in the company (page173)

[http://books.google.com/books?id=YqBzDH1rBZMC&pg=PA173&dq=financial+instruments+represents+an+ownership+share+in+a++corporation?&hl=en&ei=mR52TcroEcnhrAf167G\\_Cq&sa=X&oi=book\\_result&ct=result&resnum=2&ved=0CCwQ6AEwAQ#v=onepage&q=financial%20instruments%20represents%20an%20ownership%20share%20in%20a%20%20corporation%3F&f=false](http://books.google.com/books?id=YqBzDH1rBZMC&pg=PA173&dq=financial+instruments+represents+an+ownership+share+in+a++corporation?&hl=en&ei=mR52TcroEcnhrAf167G_Cq&sa=X&oi=book_result&ct=result&resnum=2&ved=0CCwQ6AEwAQ#v=onepage&q=financial%20instruments%20represents%20an%20ownership%20share%20in%20a%20%20corporation%3F&f=false)

Question No: 2 ( Marks: 1 ) - Please choose one

There are \_\_\_\_ broad categories of financial assets.

▶ 2

▶ **3**

▶ 4

▶ 5

(page82)[http://books.google.com/books?id=bjEhstG-](http://books.google.com/books?id=bjEhstG-JAMC&pg=PA82&dq=broad+categories+of+financial+assets&hl=en&ei=st55TeP2HY2nrAea5YDBBQ&sa=X&oi=book_result&ct=result&resnum=2&ved=0CDAQ6AEwAQ#v=onepage&q=broad%20categories%20of%20financial%20assets&f=false)

[JAMC&pg=PA82&dq=broad+categories+of+financial+assets&hl=en&ei=st55TeP2HY2nrAea5YDBBQ&sa=X&oi=book\\_result&ct=result&resnum=2&ved=0CDAQ6AEwAQ#v=onepage&q=broad%20categories%20of%20financial%20assets&f=false](http://books.google.com/books?id=bjEhstG-JAMC&pg=PA82&dq=broad+categories+of+financial+assets&hl=en&ei=st55TeP2HY2nrAea5YDBBQ&sa=X&oi=book_result&ct=result&resnum=2&ved=0CDAQ6AEwAQ#v=onepage&q=broad%20categories%20of%20financial%20assets&f=false)

(page1-10)

[http://books.google.com/books?id=HUX-y4oXI04C&pg=SA1-](http://books.google.com/books?id=HUX-y4oXI04C&pg=SA1-PA10&lpg=SA1-)

[PA10&lpg=SA1-PA10&dq=There+are+3+broad+categories+of+financial+assets&source=bl&ots=qdm6kaAasY&sig=9HdQYSc9coWKc6EUF0hgD6dNH-s&hl=en&ei=Uw99TbSrEpDqrQfn4v23BQ&sa=X&oi=book\\_result&ct=result&resnum=10&ved=0CFwQ6AEwCQ#v=onepage&q=%20three%20broad%20categories%20of%20financial%20assets&f=false](http://books.google.com/books?id=HUX-y4oXI04C&pg=SA1-PA10&lpg=SA1-PA10&dq=There+are+3+broad+categories+of+financial+assets&source=bl&ots=qdm6kaAasY&sig=9HdQYSc9coWKc6EUF0hgD6dNH-s&hl=en&ei=Uw99TbSrEpDqrQfn4v23BQ&sa=X&oi=book_result&ct=result&resnum=10&ved=0CFwQ6AEwCQ#v=onepage&q=%20three%20broad%20categories%20of%20financial%20assets&f=false)

Question No: 3 ( Marks: 1 ) - Please choose one

Shares of McDonald Corporation are an example of a (n):

▶ **Standardized financial instrument**

- ▶ Non-standardized financial instrument since their prices can differ over time
- ▶ Standardized financial liability instrument
- ▶ Open-end investment

(question6)[http://highered.mcgraw-hill.com/sites/0073523097/student\\_view0/chapter3/quiz\\_1.html](http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter3/quiz_1.html)

Question No: 4 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ promotes investment education and ethical behavior among those

involved in the investment business.

- ▶ Licensed International Financial Analyst (LIFA)



▶ Securities Investor Protection Corporation (SIPC)

▶ **Chartered Financial Analyst Institute (CFAI)**

Securities and Exchange Commission (SEC)

(page669)[http://books.google.com/books?id=fk-rYsLrekAC&pg=PA670&lpg=PA670&dq=promotes+investment+education+and+ethical+behavior&source=bl&ots=MPpAvYfw7B&sig=A4E\\_HI-I5lEVqsKAJgsNXbRfwbo&hl=en&ei=Qel8TeznBsLsrQfvtdHRBQ&sa=X&oi=book\\_result&ct=result&resnum=4&ved=0CDIQ6AEwAw#v=onepage&q&f=false](http://books.google.com/books?id=fk-rYsLrekAC&pg=PA670&lpg=PA670&dq=promotes+investment+education+and+ethical+behavior&source=bl&ots=MPpAvYfw7B&sig=A4E_HI-I5lEVqsKAJgsNXbRfwbo&hl=en&ei=Qel8TeznBsLsrQfvtdHRBQ&sa=X&oi=book_result&ct=result&resnum=4&ved=0CDIQ6AEwAw#v=onepage&q&f=false)

(Another) [ch25.ppt - www.swlearning.com](http://www.swlearning.com/ch25.ppt)

The CFA program began in 1959 when the Institute of Chartered Financial Analysts (ICFA) was formed

– Promotes investment education and ethical behavior

– Awarded the first charter in 1963

Question No: 5 ( Marks: 1 ) - Please choose one

Which of the following function removes the fear of buying or selling at rip off price?

▶ **Fair pricing function**

▶ Continuous pricing function

▶ Economic function

▶ Exchange function

(page 7) *The fair price function removes the fear of buying or selling at rip off price*

Question No: 6 ( Marks: 1 ) - Please choose one

The trading of listed securities in the NASDAQ market is known as:

▶ Primary market

▶ **Third market**

▶ Secondary market

▶ Fourth market

(page 12) *The trading of listed securities in the NASDAQ market is known as the third market.*

Question No: 7 ( Marks: 1 ) - Please choose one

Stocks of well-established companies that have stable earnings and no extensive liabilities are known as \_\_\_\_\_.

▶ Growth stocks

▶ Income stocks

▶ Defensive stocks

▶ **Blue chip stocks**

Ref: A **blue chip stock** is the **stock** of a well-established company having **stable earnings and no extensive liabilities**. [http://en.mimi.hu/stockmarket/blue\\_chip.html](http://en.mimi.hu/stockmarket/blue_chip.html)

Question No: 8 ( Marks: 1 ) - Please choose one

Which of the following statement regarding short sales is NOT true?

▶ **Short sales are done with the expectation that prices will rise (not sure)**

- ▶ Short sales can be executed only on an uptrend
- ▶ Short sales are all done on margin
- ▶ Short sales may be executed by both individuals and market makers

Question No: 9 ( Marks: 1 ) - Please choose one

Companies that have capitalization amounts between \$500 million and \$2billion are known as \_\_\_\_\_.

- ▶ Small cap companies
- ▶ **Mid cap companies**
- ▶ Growth companies
- ▶ Large cap companies

**(Handout page 52)**

**(page278)**

[http://books.google.com/books?id=J7fIQ2HaOPEC&pg=PA278&dq=Mid+cap+Companies+that+have+capitalization+amounts+between+\\$500+million+and+\\$2billion+are+known+as&hl=en&ei=BvB8TbrPJPwrQf3\\_OGzBQ&sa=X&oi=book\\_result&ct=result&resnum=8&ved=0CEoQ6AEwBw#v=onepage&q&f=false](http://books.google.com/books?id=J7fIQ2HaOPEC&pg=PA278&dq=Mid+cap+Companies+that+have+capitalization+amounts+between+$500+million+and+$2billion+are+known+as&hl=en&ei=BvB8TbrPJPwrQf3_OGzBQ&sa=X&oi=book_result&ct=result&resnum=8&ved=0CEoQ6AEwBw#v=onepage&q&f=false)

Question No: 10 ( Marks: 1 ) - Please choose one

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value is known as.

- ▶ Capital Asset Pricing Model
- ▶ **Dividend Discount Model**
- ▶ The Residual Earning Model
- ▶ None of the given options

**A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value. The idea is that if the value obtained from the DDM is higher than what the shares are currently trading at, then the stock is undervalued.** <http://www.investopedia.com/terms/d/ddm.asp>

Question No: 11 ( Marks: 1 ) - Please choose one

In bar chart, which colour indicates share prices are going up?

- ▶ Black
- ▶ White
- ▶ **Blue**
- ▶ Red

• **Blue color indicates market or share price is going up.**

• **Red color indicates market or share price is going down.**

Question No: 12 ( Marks: 1 ) - Please choose one

In candlestick chart, what does white body candle depict?

- ▶ Prices are moving down
- ▶ **Prices are moving up**
- ▶ Prices are constant
- ▶ Prices are fluctuating

• **White body candle depicts when prices are moving up.**

- **Black body candle will depicts when prices are moving down.**

Question No: 13 ( Marks: 1 ) - Please choose one

On Balance Volume technique of technical analysis was developed by:

▶ Charles Dow

▶ **Joseph Granville**

▶ John Bollinger

▶ Welles Wilder

(Page 150)

[http://books.google.com/books?id=AmQh8Zm34zgC&pg=PA150&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPrOe1iaH9Bg&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CC0O6AEwAA#v=onepage&q&f=false](http://books.google.com/books?id=AmQh8Zm34zgC&pg=PA150&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPrOe1iaH9Bg&sa=X&oi=book_result&ct=result&resnum=1&ved=0CC0O6AEwAA#v=onepage&q&f=false)

(PAGE 416)

[http://books.google.com/books?id=I5SgX5q5sOEC&pg=PA416&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPrOe1iaH9Bg&sa=X&oi=book\\_result&ct=result&resnum=4&ved=0CD0Q6AEwAA#v=onepage&q&f=false](http://books.google.com/books?id=I5SgX5q5sOEC&pg=PA416&dq=introduced+the+On+Balance+Volume+technique+of+technical+analysis&hl=en&ei=JgV1TemZMYPrOe1iaH9Bg&sa=X&oi=book_result&ct=result&resnum=4&ved=0CD0Q6AEwAA#v=onepage&q&f=false)

Question No: 14 ( Marks: 1 ) - Please choose one

Which of the following is relevant to market breadth?

▶ Specialist inventory

▶ **Advance/declining ratio**

▶ Fundamental analysis

▶ Ticker tape

(page 71) The Advance-Dcline Line (Breadth of the Market):

Ref: A technique used in technical analysis that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining. Positive market breadth occurs when more companies are moving higher than are moving lower, and it is used to suggest that the bulls are in control of the momentum. Conversely, a disproportional number of declining securities is used to confirm bearish momentum.

Question No: 15 ( Marks: 1 ) - Please choose one

The Elliot Wave Theory is based on repeating \_\_\_\_\_ waves cycle.

▶ 4

▶ 5

▶ 7

▶ **8**

## **Technical Analysis**

R.N. Elliot formulated this idea in a series of articles in Financial World in 1939. Elliot believed that the market has a rhythmic regularity that can be used to predict future prices.

The Elliot Wave Principle is based on a repeating 8-wave cycle, and each cycle is made up of similar shorter-term cycles (“Big fleas have little fleas upon their backs to bite 'em - little fleas have smaller fleas and so on ad infinitum”).

**Elliot Wave adherents also make extensive use of the Fibonacci series**

Question No: 16 ( Marks: 1 ) - Please choose one

Which of the following is correct formula for calculating short interest ratio?

▶ Average shares sold short / Average daily trading volume

▶ **Total shares sold short / Average daily trading volume**

▶ None of the given options

▶ Total shares sold short / Total daily trading volume

**(page 72) Short interest ratio = Total shares sold short / Average daily trading volume**

Question No: 17 ( Marks: 1 ) - Please choose one

ABC Furniture's worth \$51 million. What is another term for this?

▶ **Book value**

▶ Earning per share

▶ Market value

▶ Cost per share

Question No: 18 ( Marks: 1 ) - Please choose one

Which of the following is TRUE regarding price per earning ratio?

▶ P/E=Earnings available to common stockholders/outstanding shares

▶ P/E=Market price per share/dividend per share

▶ **P/E=Market price per share/earning per share**

▶ P/E=Dividend per share/earning per share

Question No: 19 ( Marks: 1 ) - Please choose one

When inflation and interest rates are low, Price per Earning (P/E) ratio tend to be:

▶ **High**

▶ Low

▶ Minimum

▶ Average

**(Page 94) P/E ratios are generally depressed when the interest rates and the rates of inflation are high, such as around 1980-81. P/E ratios tend to be high when inflation and interest rates are low, such as the period of the mid -to-late-1990s, when P/E ratios were at quite high levels by historical standards.**

Question No: 20 ( Marks: 1 ) - Please choose one

Which of the following industry is sensitive to business cycle and price changes?

▶ Growth industry

▶ **Cyclical industry**

▶ Defensive industry

▶ Interest sensitive industry

**Cyclical Industry**

**A term describing an industry that is sensitive to the business cycle and price changes. Many cyclical industries produce durable goods such as raw materials and heavy equipment.**

**[http://www.proz.com/kudoz/english/management/1498272-cyclical\\_industries.html](http://www.proz.com/kudoz/english/management/1498272-cyclical_industries.html)**

Question No: 21 ( Marks: 1 ) - Please choose one

Which of the following items will reduce stockholders' equity?

- ▶ Purchase of equipment
- ▶ Purchase of supplies
- ▶ Receiving a loan

▶ **Payment of salaries**

(Q#14)[http://highered.mcgraw-hill.com/sites/0073136484/student\\_view0/chapter3/multiple\\_choice\\_quiz.html](http://highered.mcgraw-hill.com/sites/0073136484/student_view0/chapter3/multiple_choice_quiz.html)

Question No: 22 ( Marks: 1 ) - Please choose one

Mutual funds pool the funds of savers and can be used to buy

- ▶ Shares in mutual savings banks only
- ▶ **A variety of financial instruments**
- ▶ Shares in the Federal Reserve System
- ▶ None of the given options

(Q#6)[http://highered.mcgraw-hill.com/sites/0073523097/student\\_view0/chapter1/quiz\\_2.html](http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter1/quiz_2.html)

(page20)[http://books.google.com/books?id=jEaW-CReqZkC&pg=PA20&lpg=PA20&dq=variety+of+financial+instruments++used+to+buy+Mutual+funds+pool+the+funds+of+savers&source=bl&ots=eD0-vuEiwC&sig=pLuh8Ym3\\_dM7PUvwjp6K2TRB1KI&hl=en&ei=fhh9TdiyNYeGrAfBoZ2\\_BQ&sa=X&oi=book\\_result&ct=result&resnum=5&ved=0CDUQ6AEwBA#v=onepage&q=variety%20of%20financial%20instruments%20%20used%20to%20buy%20Mutual%20funds%20pool%20the%20funds%20of%20savers&f=false](http://books.google.com/books?id=jEaW-CReqZkC&pg=PA20&lpg=PA20&dq=variety+of+financial+instruments++used+to+buy+Mutual+funds+pool+the+funds+of+savers&source=bl&ots=eD0-vuEiwC&sig=pLuh8Ym3_dM7PUvwjp6K2TRB1KI&hl=en&ei=fhh9TdiyNYeGrAfBoZ2_BQ&sa=X&oi=book_result&ct=result&resnum=5&ved=0CDUQ6AEwBA#v=onepage&q=variety%20of%20financial%20instruments%20%20used%20to%20buy%20Mutual%20funds%20pool%20the%20funds%20of%20savers&f=false)

Question No: 23 ( Marks: 1 ) - Please choose one

Which of the following is defined as an investment company whose capitalization constantly changes as new shares are sold and outstanding shares are redeemed?

- ▶ Unit investment trust
- ▶ Closed-end investment company
- ▶ Exchange traded fund company
- ▶ **Open-end investment company**

Ref: An open-ended mutual fund continuously issues and redeems units, so the number of units outstanding varies from day to day. Most mutual funds are open-ended.

(page78)[http://books.google.com/books?id=ZtJXlvNDSc4C&pg=PA78&dq=Open-end+investment+company++investment+company+whose+capitalization+constantly+changes+as+new+shares+are+sold+and+outstanding+shares+are+redeemed&hl=en&ei=Ah19TZbSNcnsrAeVp8D-Dq&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CCwQ6AEwAA#v=onepage&q=Open-end%20investment%20company%20%20investment%20company%20whose%20capitalization%20constantly%20changes%20as%20new%20shares%20are%20sold%20and%20outstanding%20shares%20are%20redeemed&f=false](http://books.google.com/books?id=ZtJXlvNDSc4C&pg=PA78&dq=Open-end+investment+company++investment+company+whose+capitalization+constantly+changes+as+new+shares+are+sold+and+outstanding+shares+are+redeemed&hl=en&ei=Ah19TZbSNcnsrAeVp8D-Dq&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCwQ6AEwAA#v=onepage&q=Open-end%20investment%20company%20%20investment%20company%20whose%20capitalization%20constantly%20changes%20as%20new%20shares%20are%20sold%20and%20outstanding%20shares%20are%20redeemed&f=false)

Question No: 24 ( Marks: 1 ) - Please choose one

Which of the following is defined as the total market value of securities in an investment company's portfolio divided by the number of investing company fund shares currently outstanding?

- ▶ Discounted value
- ▶ Present value
- ▶ Future cash flow value

▶ **Net asset value**

[http://en.wikipedia.org/wiki/Net\\_asset\\_value](http://en.wikipedia.org/wiki/Net_asset_value)

Ref: Net asset value may represent the value of the total equity, or it may be divided by the number of shares outstanding held by investors and, thereby, represent the net asset value *per share*.

[http://www.google.com/search?tbm=bks&tbo=1&q=Net+asset+value++the+total+market+value+of+securities+in+an+investment+company%E2%80%99s+portfolio+divided+by+the+number+of+investing+company+fund+shares+currently+outstanding&btnG=Search+Books#sclient=psy&hl=en&tbs=bks:1&q=Net+Asset+Value+%28NAV%29+The+total+market+value+of+the+securities+in+an+investment+company%27s+portfolio+divided+by+the+number+of+investing+company+fund+shares+currently+outstanding+Owners+of+fund+shares+can+sell+them+back+to+the+company+...&aq=f&aqi=&aql=&og=&pbx=1&bav=on.2,or.r\\_gc.r\\_pw.&fp=fdd35f689f495207](http://www.google.com/search?tbm=bks&tbo=1&q=Net+asset+value++the+total+market+value+of+securities+in+an+investment+company%E2%80%99s+portfolio+divided+by+the+number+of+investing+company+fund+shares+currently+outstanding&btnG=Search+Books#sclient=psy&hl=en&tbs=bks:1&q=Net+Asset+Value+%28NAV%29+The+total+market+value+of+the+securities+in+an+investment+company%27s+portfolio+divided+by+the+number+of+investing+company+fund+shares+currently+outstanding+Owners+of+fund+shares+can+sell+them+back+to+the+company+...&aq=f&aqi=&aql=&og=&pbx=1&bav=on.2,or.r_gc.r_pw.&fp=fdd35f689f495207)

Question No: 25 ( Marks: 1 ) - Please choose one

Which of the following would be considered as the most bullish indicator?

- ▶ A price decrease with heavy volume
- ▶ A price increase with small volume
- ▶ **A price increase on heavy trading**
- ▶ No change in price but an increase in volume

Technician looks for price increase on heavy volume relative to the stocks normal trading volume as an indication of bullish activity

<http://www.scribd.com/doc/50577686/UNIT-2-3?query=price+increase+on+heavy+volume+>

Question No: 26 ( Marks: 1 ) - Please choose one

Stocks can be purchased for a combination of cash and borrowed funds in:

- ▶ **Margin account**
- ▶ Cash account
- ▶ IRA account
- ▶ Option account

## **BUSINESS 751 (Q#17)**

Question No: 27 ( Marks: 1 ) - Please choose one

The average price of a security or currency over a specified time period used to spot

pricing trends by smoothing out the large fluctuations is known as:

- ▶ **Moving Average**
- ▶ Standard deviation

- ▶ Variance
- ▶ Beta

The average price of a security or currency over a specified time period used to spot pricing trends by smoothing out the large fluctuations. The exponential variety assigns more value or weight to the most recent data.

<http://www.metaglossary.com/meanings/248146/>

Question No: 28 ( Marks: 1 ) - Please choose one

The use of the earnings multiplier model requires the use of forecast company earnings. How do investors obtain forecasts of company earnings?

- ▶ Public companies are required to issue forecasts of quarterly earnings, going out three years

**▶ Securities analysts develop and publish earnings forecasts, based on their understanding of the company, its industry, and the overall economy (not sure )**

- ▶ Securities analysts develop and publish earnings forecasts, based on sophisticated statistical techniques

- ▶ Because these earnings will be announced in the future, no one can forecast them

The earnings multiplier approach is the most popular approach to forecasting the overall stock market.

Question No: 29 ( Marks: 1 ) - Please choose one

Which of the following is an intangible asset with an identifiable useful life?

**▶ Patent**

- ▶ Timber
- ▶ Goodwill
- ▶ Trademark

(Q#2)[http://highered.mcgraw-hill.com/sites/0073526789/student\\_view0/chapter9/multiple\\_choice\\_quiz.html](http://highered.mcgraw-hill.com/sites/0073526789/student_view0/chapter9/multiple_choice_quiz.html)

Question No: 30 ( Marks: 1 ) - Please choose one

Which of the following categories is NOT a financial statement element?

**▶ Cash flow**

- ▶ Contributed capital
- ▶ Assets
- ▶ Distributions

(q#3)[https://highered.mcgraw-hill.com/sites/0073526770/student\\_view0/chapter1/online\\_quizzes.html](https://highered.mcgraw-hill.com/sites/0073526770/student_view0/chapter1/online_quizzes.html)

## **Paper 3**

### **MIDTERM EXAMINATION Spring 2010**

#### **FIN630- Investment Analysis & Portfolio Management (Session - 5)**

**Question No: 1 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ provides an automatic execution of limit orders up to 1,099 shares at the best bid or offer.

- ▶ SuperDOT

- ▶ NASDAQ
- ▶ Auction market
- ▶ **NYSE direct**

<https://www.nyse.com/marketinfo/hybmarket/1126821290345.html>

NYSE Direct+, an automatic-execution service for limit orders of up to 1,099 shares, enables users to opt for an immediate execution at the best bid or offer, without a fee and with anonymity and speed. The average execution time is 0.36 seconds

[http://www.nyse.com/about/history/timeline\\_technology.html](http://www.nyse.com/about/history/timeline_technology.html)

**Question No: 2 ( Marks: 1 ) - Please choose one**

The trading of listed securities in the NASDAQ market is known as:

- ▶ Primary market
- ▶ **Third market**
- ▶ Secondary market
- ▶ Fourth market

**(page 12) The trading of listed securities in the NASDAQ market is known as the third market.**

**Question No: 3 ( Marks: 1 ) - Please choose one**

A self-regulatory body that licenses brokers and generally oversees the trading practices of Over the counter(OTC) securities is known as \_\_\_\_\_ .

- ▶ Securities and Exchange Commission (SEC)
- ▶ **National Association of Security Dealers (NASD)**
- ▶ Initial Public Offering (IPO)
- ▶ Offered for Sale (OFS)

**(page 14) The National Association of Securities Dealers (NASD) is a self-regulatory body that licenses brokers and generally oversees trading practices.**

**Question No: 4 ( Marks: 1 ) - Please choose one**

Companies that have historically paid a larger than average percentage of their profit as dividend to their shareholders is known as:

- ▶ Blue chip companies
- ▶ Cyclical companies
- ▶ Growth companies
- ▶ **Income companies**

**(page 25) Income stocks are those that have historically paid a larger than average percentage of their NIAT as dividend to their shareholders**

**(page 289)**[http://books.google.com/books?id=fk-](http://books.google.com/books?id=fk-rYsLrekAC&pg=PA289&lpg=PA289&dq=Companies+that+have+historically+paid+a+larger+than+average+percentage+of+their+profit+as+dividend+to+their+shareholders&source=bl&ots=MPpAv1ms9w&sig=Q7JYowrauH8NATYUPhJo_iGUFO&hl=en&ei=aMZ9Tda8IcfprQfs06XMBQ&sa=X&oi=book_result&ct=result&resnum=8&ved=0CEsQ6AEwBw#v=onepage&q=Companies%20that%20have%20historically%20paid%20a%20larger%20than%20average%20percentage%20of%20their%20profit%20as%20dividend%20to%20their%20shareholders&f=false)

[rYsLrekAC&pg=PA289&lpg=PA289&dq=Companies+that+have+historically+paid+a+larger+than+average+percentage+of+their+profit+as+dividend+to+their+shareholders&source=bl&ots=MPpAv1ms9w&sig=Q7JYowrauH8NATYUPhJo\\_iGUFO&hl=en&ei=aMZ9Tda8IcfprQfs06XMBQ&sa=X&oi=book\\_result&ct=result&resnum=8&ved=0CEsQ6AEwBw#v=onepage&q=Companies%20that%20have%20historically%20paid%20a%20larger%20than%20average%20percentage%20of%20their%20profit%20as%20dividend%20to%20their%20shareholders&f=false](http://books.google.com/books?id=fk-rYsLrekAC&pg=PA289&lpg=PA289&dq=Companies+that+have+historically+paid+a+larger+than+average+percentage+of+their+profit+as+dividend+to+their+shareholders&source=bl&ots=MPpAv1ms9w&sig=Q7JYowrauH8NATYUPhJo_iGUFO&hl=en&ei=aMZ9Tda8IcfprQfs06XMBQ&sa=X&oi=book_result&ct=result&resnum=8&ved=0CEsQ6AEwBw#v=onepage&q=Companies%20that%20have%20historically%20paid%20a%20larger%20than%20average%20percentage%20of%20their%20profit%20as%20dividend%20to%20their%20shareholders&f=false)

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following is suitable for analyzing short term investments?

- ▶ Horizontal analysis
- ▶ Fundamental analysis
- ▶ **Technical analysis**
- ▶ Ratio analysis\_

**For short term investment goals technical analysis is more suitable.**



<http://www.getmoneyrich.com/how-to-predict-future-price-of-stocks/>

**Question No: 6 ( Marks: 1 ) - Please choose one**

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value is known as.

▶ **Dividend Discount Model**

- ▶ The Residual Earning Model
- ▶ None of the given options
- ▶ Capital Asset Pricing Model

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value. The idea is that if the value obtained from the DDM is higher than what the shares are currently trading at, then the stock is undervalued.

<http://www.investopedia.com/terms/d/ddm.asp>

**Question No: 7 ( Marks: 1 ) - Please choose one**

A good time is characterized by which of following situation?

▶ **Market prices moving above the moving average**

- Market prices moving below the moving average
- Market prices exactly same as moving average
- None of the given options

▶ **bullish signal is generated when prices move above the moving average. A bearish signal is generated when prices move below the moving average**

[http://stockcharts.com/school/doku.php?id=chart\\_school:technical\\_indicators:moving\\_averages](http://stockcharts.com/school/doku.php?id=chart_school:technical_indicators:moving_averages)

(page 29)

[http://books.google.com.pk/books?id=ZproZYDvKgsC&pg=PA29&lpg=PA29&dq=A+good+time+is+characterized+by+%EF%80%A0Market+prices+moving+below+the+moving+average%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0&source=bl&ots=AJA0WzNsN6&sig=yYccUFz63m4SDXCNh5N0N6fwzQk&hl=en&ei=RvI9TajvCMiWhQfvIM3yBg&sa=X&oi=book\\_result&ct=result&resnum=8&ved=0CEEQ6AEwBw#v=onepage&q&f=false](http://books.google.com.pk/books?id=ZproZYDvKgsC&pg=PA29&lpg=PA29&dq=A+good+time+is+characterized+by+%EF%80%A0Market+prices+moving+below+the+moving+average%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0%EF%80%A0&source=bl&ots=AJA0WzNsN6&sig=yYccUFz63m4SDXCNh5N0N6fwzQk&hl=en&ei=RvI9TajvCMiWhQfvIM3yBg&sa=X&oi=book_result&ct=result&resnum=8&ved=0CEEQ6AEwBw#v=onepage&q&f=false)

**Question No: 8 ( Marks: 1 ) - Please choose one**

Which of the following statement is **FALSE** about Elliot Wave Theory?

- It made extensive use of Fibonacci series ▶
- It is based on repeating 8 waves' cycles ▶

▶ **It identified three movements in security prices ▶**

It was proposed by R.N. Elliot ▶

**Question No: 9 ( Marks: 1 ) - Please choose one**

Which of the following depicts ratio of share price to stockholder equity?

- Debt coverage ratio ▶
- Price-to-sales ratio ▶

▶ **Price-to-market value ratio ▶**

Price-to-book value ratio ▶

[http://books.google.com.pk/books?id=fJ9dj4kCo0AC&pg=PA100&dq=Price-to-market+value+ratio&hl=en&ei=lf19TcPHOIWnrAeGwYT-Dq&sa=X&oi=book\\_result&ct=result&resnum=3&ved=0CDUQ6AEwAq#v=onepage&q&f=false](http://books.google.com.pk/books?id=fJ9dj4kCo0AC&pg=PA100&dq=Price-to-market+value+ratio&hl=en&ei=lf19TcPHOIWnrAeGwYT-Dq&sa=X&oi=book_result&ct=result&resnum=3&ved=0CDUQ6AEwAq#v=onepage&q&f=false)

The price-to-book ratio, or P/B ratio, is a **financial ratio** used to compare a company's **book value** to its current market price. Book value is an accounting term denoting the portion of the company held by the shareholder

[http://en.wikipedia.org/wiki/P/B\\_ratio](http://en.wikipedia.org/wiki/P/B_ratio)

**Question No: 10 ( Marks: 1 ) - Please choose one**

On which of the following financial statements, revenues and expenses can be found?

- ▶ Balance sheet
- ▶ **Income statement**
- ▶ Statement of cash flows
- ▶ Statement of changes in equity

**(page 115) (the result after all revenues and expenses have been accounted for, also known as the "bottom line").**

**Question No: 11 ( Marks: 1 ) - Please choose one**

Which of the following is a basket of stocks that tracks a particular sector, investment style, geographical area, or the market as a whole?

- ▶ **Exchange traded fund**
- ▶ Open-end fund
- ▶ Closed-end fund
- ▶ Unit investment trust

**(page 135) An ETF is a basket of stocks that tracks a particular sector, investment style, geographical area, or the market as a whole.**

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following is defined as an investment strategy that involves ongoing buying and selling actions by the investors?

- ▶ Make or Buy strategy
- ▶ **Active strategy**
- ▶ Passive strategy
- ▶ Buy-and-Hold strategy

**An active investment strategy involves ongoing buying and selling actions by the investor. <http://www.boomerandecho.com/how-to-invest-your-money-part-three-finding-your-strategy/>  
<http://www.investopedia.com/terms/a/activeinvesting.asp>**

**Question No: 13 ( Marks: 1 ) - Please choose one**

Which of the following is an example of brokerage fee charged by a stockbroker?

- ▶ Margin profit
- ▶ Insurance premium
- ▶ **Transaction cost**
- ▶ Capital expenditure

**(Q#13)[http://highered.mcgraw-hill.com/sites/0073523097/student\\_view0/chapter3/quiz\\_1.html](http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter3/quiz_1.html)**

**Question No: 14 ( Marks: 1 ) - Please choose one**

Which of the following would be considered as the most bullish indicator?

- ▶ A price decrease with heavy volume
- ▶ A price increase with small volume
- ▶ **A price increase on heavy trading**
- ▶ No change in price but an increase in volume

**Question No: 15 ( Marks: 1 ) - Please choose one**

Financial securities with a maturity of less than a year from their original issue date are sold in which of following market?

▶ **Money market**

- ▶ Bond market
- ▶ Equity market
- ▶ Derivative market

(page233)

[http://books.google.com/books?id=OVoxIhN\\_y1qC&pg=PA233&dq=Financial+securities+with+a+maturity+of+less+than+a+year&hl=en&ei=iwZ-](http://books.google.com/books?id=OVoxIhN_y1qC&pg=PA233&dq=Financial+securities+with+a+maturity+of+less+than+a+year&hl=en&ei=iwZ-)

[TduUBsP3rOeThaDGBQ&sa=X&oi=book\\_result&ct=result&resnum=1&ed=0CCcO6AEwAA#v=onepage&q=Financial%20securities%20with%20a%20maturity%20of%20less%20than%20a%20year&f=false](http://books.google.com/books?id=OVoxIhN_y1qC&pg=PA233&dq=Financial+securities+with+a+maturity+of+less+than+a+year&hl=en&ei=iwZ-TduUBsP3rOeThaDGBQ&sa=X&oi=book_result&ct=result&resnum=1&ed=0CCcO6AEwAA#v=onepage&q=Financial%20securities%20with%20a%20maturity%20of%20less%20than%20a%20year&f=false)

**Question No: 16 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ enables market participants to get accurate and up-to-date price information.

- ▶ Fair pricing function

▶ **Continuous pricing function**

- ▶ Economic function
- ▶ Exchange function

(page 6) *The continuous price function enables market participants to get accurate, up-to-date price information.*

**Question No: 17 ( Marks: 1 ) - Please choose one**

The average price of a security or currency over a specified time period used to spot pricing trends by smoothing out the large fluctuations is known as:

▶ **Moving Average**

- ▶ Standard deviation
- ▶ Variance
- ▶ Beta

**(EMA) — The average price of a security or currency over a specified time period used to spot pricing trends by smoothing out the large fluctuations. The exponential variety assigns more value or weight to the most recent data**

<http://www.metaglossary.com/meanings/248146/>

**Question No: 18 ( Marks: 1 ) - Please choose one**

An investor will purchase shares of companies in the development stage for:

- ▶ Current income
- ▶ Current income and capital gains
- ▶ Passive losses to offset other income

▶ **Capital gains only**

**An investor will purchase shares of companies in the development stage for:**

- A) Current income only**
- B) Current income and capital gains**
- C) Capital gains only**
- D) Passive losses to offset other income**

**Answer: C**

<http://www1.emath.pu.edu.tw/chchang/test006.pdf>

**Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following industry is **NOT** sensitive to business cycle and price changes?

▶ **Defensive industry**

- ▶ Interest sensitive industry
- ▶ Growth industry
- ▶ Cyclical industry

**defensive industries have little sensitivity to the business cycle. These are the industries that produce goods for which sales and profits are least sensitive to the state of economy.**

[http://webcache.googleusercontent.com/search?q=cache:8Ho6pX3s5CkJ:www.managementparadise.com/uploads\\_blog/210000/209942/0\\_2345.ppt+%22Defensive+industry+is+NOT+sensitive+to+business+cycle+%22&cd=8&hl=en&ct=clnk&client=gmail&source=www.google.com](http://webcache.googleusercontent.com/search?q=cache:8Ho6pX3s5CkJ:www.managementparadise.com/uploads_blog/210000/209942/0_2345.ppt+%22Defensive+industry+is+NOT+sensitive+to+business+cycle+%22&cd=8&hl=en&ct=clnk&client=gmail&source=www.google.com)

**A defensive industry is one that is relatively insensitive to changes in the economic environment.**

<http://www.stockboulevard.com/tutorial/index.php?action=tutorial10>

**Question No: 20 ( Marks: 1 ) - Please choose one**

Which of the following categories is **NOT** a financial statement element?

▶ **Cash flow**

- ▶ Contributed capital
- ▶ Assets
- ▶ Distributions

(q#3) [https://highered.mcgraw-](https://highered.mcgraw-hill.com/sites/0073526770/student_view0/chapter1/online_quizzes.html)

[hill.com/sites/0073526770/student\\_view0/chapter1/online\\_quizzes.html](https://highered.mcgraw-hill.com/sites/0073526770/student_view0/chapter1/online_quizzes.html)

**Question No: 21 ( Marks: 1 ) - Please choose one**

Which of the following statement about a security is true, if it's beta > 1.0?

▶ **Security is more risky than the market**

- ▶ Security is less risky than market
- ▶ Security is exactly as risky as market
- ▶ It is not possible to predict riskiness of a security by beta

**(Handout page 137) A stock with a beta lower than 1.0 has a required rate of return below  $k_M$ , because its risk (beta) is less than that of the market. On the other hand, a stock with a beta greater than 1.0 has a required rate of return greater than that of the market.**

**Question No: 22 ( Marks: 1 ) - Please choose one**

A bad time in market will persist when the market prices move:

- ▶ Above the moving average

▶ **Below the moving average**

- ▶ Exactly same as moving average
- ▶ Firstly up then down the moving average

**Question No: 23 ( Marks: 1 ) - Please choose one**

What does price earning ratio indicate?

- ▶ It indicates how many interest payments could be made with a firm's earnings.

▶ **It indicates how much investors pay for Rs.1 earning of the company.**

- ▶ It indicates the percentage of earnings paid to shareholders.
- ▶ It indicates the per share profit available for distribution to the shareholders.

**(page 86)** The P/E ratio is a vital ratio for investors. Basically, it gives us an indication of the confidence that investors have in the future prosperity of the business. A P/E ratio of 1 shows very little confidence in that business whereas a P/E ratio of 20 expresses a great deal of optimism about the future of a business. Here's the formula:  
 $P/E = \text{Current Market Share Price} / \text{EPS}$

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following is **TRUE** regarding price earning ratio?

- ▶ P/E=Earnings available to common stockholders/outstanding shares
- ▶ P/E=Market price per share/dividend per share
- ▶ **P/E=Market price per share/earning per share**
- ▶ P/E=Dividend per share/earning per share

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following stock's price move in opposite direction to that of interest rates?

- ▶ Growth stock
- ▶ Value stock
- ▶ **Interest sensitive stock**
- ▶ Defensive stock

**Interest-sensitive stock**

A stock that tends to move in the opposite direction from that of interest rates. <http://www.infoplease.com/finance/tools/glossary.html>

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a component of ROA?

- ▶ Turnover
- ▶ **Leverage**
- ▶ Sales
- ▶ Net income margin

**(page 107)** ROA is an important measure of the firm's profitability. It is a product of two factors,

$ROA = \text{Net income margin} \times \text{Turnover}$

$\text{Net income margin} = \text{Net income} / \text{Sales}$

$\text{Turnover} = \text{Sales} / \text{Total Assets}$

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following statement about the types of the orders is **LEAST** accurate?

- ▶ Market orders are orders to buy or sell at the best price available.
- ▶ Limit orders are orders to buy or sell at or away from the market price.
- ▶ **A stop buy order is used to protect a short position in a security and is placed below the current market price.**
- ▶ Limit order must specify a price and a time limit.

**(page141)**

[http://books.google.com/books?id=pagDs\\_H827IC&pg=PA141&dq=Limit+orders+are+orders+to+buy+or+sell+at+or+away+from+the+market+price.&hl=en&ei=kBI-](http://books.google.com/books?id=pagDs_H827IC&pg=PA141&dq=Limit+orders+are+orders+to+buy+or+sell+at+or+away+from+the+market+price.&hl=en&ei=kBI-)

[Tfa\\_M9GxrAe4kszEBQ&sa=X&oi=book\\_result&ct=result&resnum=2&ved=0CCwQ6AEwAQ#v=onepage&q=Limit%20orders%20are%20orders](http://books.google.com/books?id=pagDs_H827IC&pg=PA141&dq=Limit+orders+are+orders+to+buy+or+sell+at+or+away+from+the+market+price.&hl=en&ei=kBI-Tfa_M9GxrAe4kszEBQ&sa=X&oi=book_result&ct=result&resnum=2&ved=0CCwQ6AEwAQ#v=onepage&q=Limit%20orders%20are%20orders)

[%20to%20buy%20or%20sell%20at%20or%20away%20from%20the%20market%20price.&f=false](#)

[http://en.wikipedia.org/wiki/Order %28exchange%29](http://en.wikipedia.org/wiki/Order_%28exchange%29)

A buy stop order is typically used to limit a loss (or to protect an existing profit) on a short sale.<sup>1121</sup> A buy stop price is always above the current market price.

(page45)

[http://books.google.com/books?id=vmhYIcuYB8cC&pg=PA43&dq=%E2%96%BA+Market+orders+are+orders+to+buy+or+sell+at+the+best+price+available.+%E2%96%BA+Limit+orders+are+orders+to+buy+or+sell+at+or+away+from+the+market+price.++%E2%96%BA+A+stop+buy+order+is+used+to+protect+a+short+position+in+a+security+and+is+placed+below+the+current+market+price.+%E2%96%BA+Limit+order+must+specify+a+price+and+a+time+limit.&hl=en&ei=whx-TbHEJontrAeegOHOB0&sa=X&oi=book\\_result&ct=result&resnum=2&ved=0CCwQ6AEwAQ#v=onepage&q&f=false](http://books.google.com/books?id=vmhYIcuYB8cC&pg=PA43&dq=%E2%96%BA+Market+orders+are+orders+to+buy+or+sell+at+the+best+price+available.+%E2%96%BA+Limit+orders+are+orders+to+buy+or+sell+at+or+away+from+the+market+price.++%E2%96%BA+A+stop+buy+order+is+used+to+protect+a+short+position+in+a+security+and+is+placed+below+the+current+market+price.+%E2%96%BA+Limit+order+must+specify+a+price+and+a+time+limit.&hl=en&ei=whx-TbHEJontrAeegOHOB0&sa=X&oi=book_result&ct=result&resnum=2&ved=0CCwQ6AEwAQ#v=onepage&q&f=false)

(page 4)

<http://wenku.baidu.com/view/af3706f7ba0d4a7302763add.html>

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following statements regarding life cycle of an industry is **MOST** accurate?

▶ **In the pioneering phase, profits are small or negative.**

- ▶ In the mature growth phase, sales growth falls below normal for the first time.
- ▶ During the stabilization phase, growth rates are still above the growth rates in economy.
- ▶ The growth of the substitute products increases total market share & causes profits to increase in the deceleration phase.

(Handout page 98)

<http://www.wiziq.com/tutorial/23582-Equities> (slide #8)

## Paper 4

Midterm examination

Spring 2010

Fin630- investment analysis & portfolio management (session - 2)

**Question no: 1 ( marks: 1 ) - please choose one**

Which of the following is **not** a fixed income security?

- ▶ bonds
- ▶ preferred stock

▶ saving deposits

▶ **options**

**(page 2) bonds are the most important fixed income securities**

*Preferred stock is considered a fixed income security*

**(page 79)** [http://books.google.com/books?id=pzfej75zrj0c&pg=pa79&lpg=pa79&dq=fixed+income+security?+%e2%96%ba+bonds+%e2%96%ba+preferred+stock+%e2%96%ba+saving+deposits+%e2%96%ba+options&source=bl&ots=5e5pxlgg5y&sig=z-otl9pudnpg-ybwg3upoayilg&hl=en&ei=rjh-tdmpe4pprqfemlztbq&sa=x&oi=book\\_result&ct=result&resnum=5&ved=0cduq6aewba#v=onepage&q&f=false](http://books.google.com/books?id=pzfej75zrj0c&pg=pa79&lpg=pa79&dq=fixed+income+security?+%e2%96%ba+bonds+%e2%96%ba+preferred+stock+%e2%96%ba+saving+deposits+%e2%96%ba+options&source=bl&ots=5e5pxlgg5y&sig=z-otl9pudnpg-ybwg3upoayilg&hl=en&ei=rjh-tdmpe4pprqfemlztbq&sa=x&oi=book_result&ct=result&resnum=5&ved=0cduq6aewba#v=onepage&q&f=false)

**Question no: 2 ( marks: 1 ) - please choose one**

\_\_\_\_\_ are qualified and regulated professionals who trade shares and other securities through market makers on behalf of investors.

▶ **stock brokers**

- ▶ members
- ▶ specialists
- ▶ day traders

<http://onlinetradingtutorial.org/brief-description-basics-of-online-share-trading>

**a stock broker is a qualified and regulated professional who buys and sells shares and other securities through market makers on behalf of investors.**

**Question no: 3 ( marks: 1 ) - please choose one**

A self-regulatory body that licenses brokers and generally oversees the trading practices of over the counter(otc) securities is known as \_\_\_\_\_ .

▶ securities and exchange commission (sec)

▶ **national association of security dealers (nasd)**

- ▶ initial public offering (ipo)
- ▶ offered for sale (ofs)

**(page 14) The National Association of Securities Dealers (NASD) is a self-regulatory body that licenses brokers and generally oversees trading practices**

**Question no: 4 ( marks: 1 ) - please choose one**

\_\_\_\_\_ is a temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements.

- ▶ superdot
- ▶ nyse direct
- ▶ **trading curb**
- ▶ ticker tape

A temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements. Also known as a collar or circuit breaker..

<http://www.investopedia.com/terms/t/tradingcurb.asp>

<http://www.investhub.com/glossary/trading-curb.htm>

**Question no: 5 ( marks: 1 ) - please choose one**

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value is known as.

- ▶ **dividend discount model**
- ▶ the residual earning model
- ▶ none of the given options
- ▶ capital asset pricing model

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value. The idea is that if the value obtained from the DDM is higher than what the shares are currently trading at, then the stock is undervalued. <http://www.investopedia.com/terms/d/ddm.asp>

**Question no: 6 ( marks: 1 ) - please choose one**

In candlestick chart, what does white body candle depict?

Prices are moving down ▶

**prices are moving up ▶**

Prices are constant ▶

Prices are fluctuating ▶

**Question no: 7 ( marks: 1 ) - please choose one**



Which of the following is a popular price pattern?

Double ups ►

**Head and shoulders ►**

Triangles ►

Resistance and support ►

**Virtually every popular price pattern, from classics such as head-and-shoulders to shorter-term patterns for today's fast-action traders**  
[http://ebookey.org/Pring-on-Price-Patterns-The-Definitive-Guide-to-Price-Pattern-Analysis-and-Intrepretation\\_660098.html](http://ebookey.org/Pring-on-Price-Patterns-The-Definitive-Guide-to-Price-Pattern-Analysis-and-Intrepretation_660098.html)

**Question no: 8 ( marks: 1 ) - please choose one**

Primary trend in dow theory is known as \_\_\_\_\_.

Wave ►

Triangle ►

**tide ►**

Rounded bottom ►

**(page 61) The Dow Theory is often illustrated by an ocean analogy. The tide is either is coming in or going out – the primary trend**

**(page 3)**

[http://books.google.com/books?id=0\\_0c6ETLK7EC&pg=PA2&dq=Primary+trend+in+dow+theory&hl=en&ei=nEN-TYTdF4WyrAf25aHOBQ&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CCc06AEwAA#v=onepage&q=Primary%20trend%20in%20dow%20theory%20tide&f=false](http://books.google.com/books?id=0_0c6ETLK7EC&pg=PA2&dq=Primary+trend+in+dow+theory&hl=en&ei=nEN-TYTdF4WyrAf25aHOBQ&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCc06AEwAA#v=onepage&q=Primary%20trend%20in%20dow%20theory%20tide&f=false)

**Question no: 9 ( marks: 1 ) - please choose one**

The primary purpose of the liquidity ratios is to determine:

► the amount of earnings paid to shareholders

► the amount of working capital tied up in inventory

**► the ability of a firm to pay off short-term obligations**

► the relative level of short-term debt

(Page 82) The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations.

(page 141)

[http://books.google.com/books?id=JApidhPLrI8C&pg=PA141&dq=primary+purpose+of+the+liquidity+ratios&hl=en&ei=MER-Tb-hG4nWrQe6q828BQ&sa=X&oi=book\\_result&ct=result&resnum=3&ved=0CC8Q6AEwAg#v=onepage&q=primary%20purpose%20of%20the%20liquidity%20ratios&f=false](http://books.google.com/books?id=JApidhPLrI8C&pg=PA141&dq=primary+purpose+of+the+liquidity+ratios&hl=en&ei=MER-Tb-hG4nWrQe6q828BQ&sa=X&oi=book_result&ct=result&resnum=3&ved=0CC8Q6AEwAg#v=onepage&q=primary%20purpose%20of%20the%20liquidity%20ratios&f=false)

**Question no: 10 ( marks: 1 ) - please choose one**

Which of the following statement is **true** regarding earning per share?

- ▶ it represents the company's current obligation
- ▶ it represents the ability of a company to repay its current liabilities
- ▶ **it represents per share profit available for distribution to the shareholders**
- ▶ it represents the percentage of earnings paid to shareholders

(Handouts page 84)

<http://www.mvsmp.com/fundamental-analysis.html> EPS, represents profits which accrue for the shareholders on a per share basis and can be found on the income statement

(page 67) [http://books.google.com/books?id=t6Z\\_jvX20ekC&pg=PA67&dq=earning+per+share+represents+per+share+profit+available+for+distribu+tion+to+the+shareholders&hl=en&ei=j0V-TYaEN8jKrAfFu4y9BO&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CCwQ6AEwAA#v=onepage&q&f=false](http://books.google.com/books?id=t6Z_jvX20ekC&pg=PA67&dq=earning+per+share+represents+per+share+profit+available+for+distribu+tion+to+the+shareholders&hl=en&ei=j0V-TYaEN8jKrAfFu4y9BO&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCwQ6AEwAA#v=onepage&q&f=false)

**Question no: 11 ( marks: 1 ) - please choose one**

Which of the following industries is **least** sensitive to changes in the business cycle?

- ▶ manufactures of business plant and equipment
- ▶ **machine tools and special equipment, such as for pollution control**
- ▶ industries specializing in high technology
- ▶ a refrigerators manufacturing company

(page206) [http://books.google.com/books?id=RqSLGv-hYBgC&pg=PA206&dq=industries+is+least+sensitive+to+changes+in+the+business+cycle&hl=en&ei=kp-Tf-tJYOrAfCq7y3BQ&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CCcQ6AEwAA#v=onepage&q=industries%20is%20least%20sensitive%20to%20changes%20in%20the%20business%20cycle&f=false](http://books.google.com/books?id=RqSLGv-hYBgC&pg=PA206&dq=industries+is+least+sensitive+to+changes+in+the+business+cycle&hl=en&ei=kp-Tf-tJYOrAfCq7y3BQ&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCcQ6AEwAA#v=onepage&q=industries%20is%20least%20sensitive%20to%20changes%20in%20the%20business%20cycle&f=false)

**Question no: 12 ( marks: 1 ) - please choose one**

Which of the following industry tend to be composed of relatively volatile and risky stocks?

- ▶ defensive industries
- ▶ interest sensitive industries

▶ **growth industries**

- ▶ cyclical industries

**Growth industries tend to be composed of relatively volatile and risky stocks.** <http://www.investopedia.com/terms/g/growthindustry.asp>

<http://www.answers.com/topic/growth-industry-investment>

**Question no: 13 ( marks: 1 ) - please choose one**

Which of the following is defined as an unmanaged, fixed-income security portfolio put together by a sponsor and handled by an independent trustee?

▶ **unit investment trust**

- ▶ closed-end investment
- ▶ open-end investment
- ▶ money market fund

**(Handout page 131) An alternative form of Investment Company that deviates from the normal managed type is the unit-investment trust, (UIT), which typically is an unmanaged, fixed-income security portfolio put together by a sponsor and handled by an independent trustee.**

<http://resources.lawyersnjurists.com/course-materials/finance/indirect-investment-in-financial-assets/>

**Question no: 14 ( marks: 1 ) - please choose one**

\_\_\_\_\_ are financial intermediaries that hold a portfolio of securities on behalf of their shareholders.

- ▶ banking companies
- ▶ growth companies
- ▶ value companies

▶ **investment companies**

(page 12)

[http://books.google.com/books?id=m5SEclYQr9MC&pg=PA12&dq=are+financial+intermediaries+that+hold+a+portfolio+of+securities+on+behalf+of+their+shareholders.&hl=en&ei=0VF-TbWvIcbirAeKq5C0BQ&sa=X&oi=book\\_result&ct=result&resnum=3&ved=0CDEQ6AEwAg#v=onepage&q&f=false](http://books.google.com/books?id=m5SEclYQr9MC&pg=PA12&dq=are+financial+intermediaries+that+hold+a+portfolio+of+securities+on+behalf+of+their+shareholders.&hl=en&ei=0VF-TbWvIcbirAeKq5C0BQ&sa=X&oi=book_result&ct=result&resnum=3&ved=0CDEQ6AEwAg#v=onepage&q&f=false)

**Question no: 15 ( marks: 1 ) - please choose one**

Which of the following statement about a security is true, if its beta < 1.0?

- ▶ security is more risky than the market
- ▶ **security is less risky than market**
- ▶ security is exactly as risky as maket
- ▶ it is not possible to predict riskiness of a security by beta

(Handout page 137) A stock with a beta lower than 1.0 has a required rate of return below  $k_M$ , because its risk (beta) is less than that of the market. On the other hand, a stock with a beta greater than 1.0 has a required rate of return greater than that of the market.

(question 27) <http://web.ku.edu/~finmhir/FIN410/EXAMS/htm/key991s.htm>

**Question no: 16 ( marks: 1 ) - please choose one**

Which of the following would be considered as the most bullish indicator?

- ▶ a price decrease with heavy volume
- ▶ a price increase with small volume
- ▶ **a price increase on heavy trading**
- ▶ no change in price but an increase in volume

**Question no: 17 ( marks: 1 ) - please choose one**

Which of the following is **not** an asset?

▶ **accounts payable**

- ▶ equipment
- ▶ supplies
- ▶ cash

**Question no: 18 ( marks: 1 ) - please choose one**

Which of the following statement about a security is true, if it's beta  $> 1.0$ ?

▶ **security is more risky than the market**

- ▶ security is less risky than market
- ▶ security is exactly as risky as maket
- ▶ it is not possible to predict riskiness of a security by beta

**Question no: 19 ( marks: 1 ) - please choose one**

Which of the following is **not** a requirement for an efficient market?

- ▶ stock prices incorporate all information
- ▶ all known information be reflected in prices
- ▶ the adjustments occur very quickly

▶ **each adjustment be perfect**

**Chapter 12 - Texas A&M University Corpus Christi - Faculty ...**

**8. An efficient market does not require that:**

- a. stock prices incorporate all information.
- b. all known information be reflected in prices.
- c. price adjustments occur very quickly.
- d. each adjustment be perfect.

**(d, easy)**

**(question86)**

<http://web.ku.edu/~finmhir/FIN410/EXAMS/htm/key991s.htm>

**Question no: 20 ( marks: 1 ) - please choose one**

Which of the following allows you to specify the most you are willing to pay when buying or the least you are willing to accept when selling?

▶ **limit order**

- ▶ market order
- ▶ stop order
- ▶ good till cancelled order

**Another type order allows you to specify the most you are willing to pay when buying or the least you are willing to accept when selling. This is known as a Limit Order.**

<http://www.stock4today.com/order-types.htm>

**Question no: 21 ( marks: 1 ) - please choose one**

In a candlestick chart, what does black body candle depict?

- ▶ prices are moving up

▶ **prices are moving down**

- ▶ prices are constant
- ▶ prices are fluctuating

**Question no: 22 ( marks: 1 ) - please choose one**

Which of the following is **true** regarding the dow theory?

- ▶ dow theory is primarily a fundamental analysis tool.
- ▶ dow theory was developed by the publisher of forbes magazine.
- ▶ **dow theory identified three movements in security prices.**
- ▶ dow theory states that computer algorithms can be used to look for patterns.

**(page 67)The Dow Theory holds that there are three components in the movement of stock prices**

**Question no: 23 ( marks: 1 ) - please choose one**

Which of the following is **true** regarding price earning ratio?

- ▶  $p/e = \text{earnings available to common stockholders} / \text{outstanding shares}$
- ▶  $p/e = \text{market price per share} / \text{dividend per share}$
- ▶  **$p/e = \text{market price per share} / \text{earning per share}$**
- ▶  $p/e = \text{dividend per share} / \text{earning per share}$

**Question no: 24 ( marks: 1 ) - please choose one**

Which of the following situations implies an upward sloping curve?

- ▶ **accelerating economic activity**
- ▶ static economic activity
- ▶ slowing economic activity
- ▶ a recession period

**Question no: 25 ( marks: 1 ) - please choose one**

Which of the following stock's price move in opposite direction to that of interest rates?

- ▶ growth stock
- ▶ value stock
- ▶ **interest sensitive stock**
- ▶ defensive stock

**Interest-sensitive stock**

**A stock that tends to move in the opposite direction from that of interest rates. <http://www.infoplease.com/finance/tools/glossary.html>**

**Question no: 26 ( marks: 1 ) - please choose one**

Which of the following is **not** a component of roa?

- ▶ turnover
- ▶ **leverage**

- ▶ sales
- ▶ net income margin

(page 107)ROA is an important measure of the firm's profitability. It is a product of two factors,

ROA = Net income margin × Turnover

Net income margin = Net income/Sales

Turnover = Sales/ Total Assets

**Question no: 27 ( marks: 1 ) - please choose one**

Which of the following statement about short selling is **least** accurate?

- ▶ the short seller must pay the lender of the stock any dividends paid by the company.
- ▶ the short seller is required to replace the borrowed securities within six months of a short sale.
- ▶ proceeds from the short sale cannot be withdrawn from the account.

**▶ the short seller hoped that the securities prices would decrease in the future.**

[http://webcache.googleusercontent.com/search?q=cache:PuzYLP2JVp4J:83.143.248.39/faculty/mmateeV/Investment%2520and%2520Portfolio%2520Management%2520BUS%2520415/docs/Chapter%252003\\_Hand-out%25202.doc+A+stop+buy+order+is+most+likely:+%E2%96%BA+used+to+limit+the+potential+losses+on+a+short+sale+%E2%96%BA+executed+if+the+market+price+is+less+than+or+equal+to+the+specified+level+%E2%96%BA+an+order+to+purchase+a+security+if+the+price+decreases+to+a+specified+level+%E2%96%BA+an+order+that+specifies+only+the+time+limit&cd=4&hl=en&ct=clnk&source=www.google.com](http://webcache.googleusercontent.com/search?q=cache:PuzYLP2JVp4J:83.143.248.39/faculty/mmateeV/Investment%2520and%2520Portfolio%2520Management%2520BUS%2520415/docs/Chapter%252003_Hand-out%25202.doc+A+stop+buy+order+is+most+likely:+%E2%96%BA+used+to+limit+the+potential+losses+on+a+short+sale+%E2%96%BA+executed+if+the+market+price+is+less+than+or+equal+to+the+specified+level+%E2%96%BA+an+order+to+purchase+a+security+if+the+price+decreases+to+a+specified+level+%E2%96%BA+an+order+that+specifies+only+the+time+limit&cd=4&hl=en&ct=clnk&source=www.google.com)

<http://www.enotes.com/business/q-and-a/true-that-proceeds-from-short-sales-cannot-249907> [http://en.wikipedia.org/wiki/Short\\_%28finance%29](http://en.wikipedia.org/wiki/Short_%28finance%29)

**Question no: 28 ( marks: 1 ) - please choose one**

A stop buy order is **most** likely:

**▶ used to limit the potential losses on a short sale**

- ▶ executed if the market price is less than or equal to the specified level
- ▶ an order to purchase a security if the price decreases to a specified level



► an order that specifies only the time limit

**stop-buy orders specify that the stock should be bought when its price rises above a given limit. These trades often accompany short sales, and they are used to limit potential losses from the short position.**

## **Paper 5**

### MIDTERM EXAMINATION

Spring 2009

FIN630- Investment Analysis & Portfolio Management (Session - 2)

Question No: 1 ( Marks: 1 ) - Please choose one

Shares of McDonald Corporation are an example of a (n):

**Standardized financial instrument**

Non-standardized financial instrument since their prices can differ over time

Standardized financial liability instrument

Open-end investment

Question No: 2 ( Marks: 1 ) - Please choose one

Which of the following is NOT a derivative security?

Option

**Debenture**

Swap

Future

(page 14)

[http://books.google.com/books?id=wF8yVzLI6EYC&pg=PA14&dq=following+is+N  
OT+a+derivative+security?+Option+Debenture+Swap+Future&hl=en&ei=T3h-  
TYbuNMizrAecnuS8Bw&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CCg  
Q6AEwAA#v=onepage&q&f=false](http://books.google.com/books?id=wF8yVzLI6EYC&pg=PA14&dq=following+is+N<br/>OT+a+derivative+security?+Option+Debenture+Swap+Future&hl=en&ei=T3h-<br/>TYbuNMizrAecnuS8Bw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCg<br/>Q6AEwAA#v=onepage&q&f=false)

Question No: 3 ( Marks: 1 ) - Please choose one

Which of the following is an example of a financial asset?

Factories

**Options**

Commercial properties

Gold

(page 2)<http://pages.stern.nyu.edu/~lpederse/courses/c150002/02instruments.pdf>

Question No: 4 ( Marks: 1 ) - Please choose one

\_\_\_\_\_ are qualified and regulated professionals who trade shares and other securities through market makers on behalf of investors.

Members

Specialists

Day traders

**Stock brokers**

<http://onlinetradingtutorial.org/brief-description-basics-of-online-share-trading>

**a stock broker is a qualified and regulated professional who buys and sells shares and other securities through market makers on behalf of investors.**

Question No: 5 ( Marks: 1 ) - Please choose one

If a person gives too much weight to recent information compared to prior beliefs, he would make \_\_\_\_\_ errors.

Framing

Selection bias

Conservatism

**Forecasting**

[http://webcache.googleusercontent.com/search?q=cache:iQ6jd\\_D\\_GPOJ:www2.cob.ilstu.edu/gnnaidu/Tb/Chap012.RTF+gives+too+much+weight+to+recent+information+compared+to+prior+beliefs,+he+would+make+\\_\\_\\_\\_\\_+errors.+Framing+Selection+bias+Conservatism+Forecasting&cd=2&hl=en&ct=clnk&source=www.google.com](http://webcache.googleusercontent.com/search?q=cache:iQ6jd_D_GPOJ:www2.cob.ilstu.edu/gnnaidu/Tb/Chap012.RTF+gives+too+much+weight+to+recent+information+compared+to+prior+beliefs,+he+would+make+_____+errors.+Framing+Selection+bias+Conservatism+Forecasting&cd=2&hl=en&ct=clnk&source=www.google.com)

**7. If a person gives too much weight to recent information compared to prior beliefs, they would make \_\_\_\_\_ errors.**

**A) framing**

**B) selection bias**

**C) overconfidence**

**D) conservatism**

**E) forecasting**

**Answer: E Difficulty: Moderate**

Question No: 6 ( Marks: 1 ) - Please choose one

Companies that have capitalization amounts between \$500 million and \$2billion are

known as \_\_\_\_\_.

Small cap companies

**Mid cap companies**

Growth companies

Large cap companies

Question No: 7 ( Marks: 1 ) - Please choose one

Mr. A purchased a stock at Rs. 50 today that is expected to grow in future up to Rs.100, he believes in \_\_\_\_\_.

Growth investment

Value investment

Speculation

**None of the given options(not sure)**

Question No: 8 ( Marks: 1 ) - Please choose one

Which of the following is a popular price pattern?

Resistance and support

Double ups

**Head and shoulders**

Triangles

Question No: 9 ( Marks: 1 ) - Please choose one

The Elliot Wave Theory is based on repeating \_\_\_\_\_ waves cycle.

4

5

7

**8**

Question No: 10 ( Marks: 1 ) - Please choose one

Which one of following statement is true if intrinsic value of a security is lower than its

current market price?

**The security is being overvalued**

The security is being undervalued

The security is correctly valued

No connection exists between security intrinsic value and market price

**(page 79) If  $V_0 < P_0$ , the asset is overvalued and should be avoided, sold if held, or possibly sold short.**

**(page206)**

[http://books.google.com/books?id=ol376Siacg8C&pg=PA206&dq=if++intrinsic++value++of++a++security+is++lower+then++its+current+market+price&hl=en&ei=8YF-TeCGB8THrQfHlcHIBw&sa=X&oi=book\\_result&ct=result&resnum=2&ved=0CC4Q6AEwAQ#v=onepage&q=if%20%20intrinsic%20%20value%20%20of%20%20a%20%20security%20is%20%20lower%20then%20%20its%20current%20market%20price&f=false](http://books.google.com/books?id=ol376Siacg8C&pg=PA206&dq=if++intrinsic++value++of++a++security+is++lower+then++its+current+market+price&hl=en&ei=8YF-TeCGB8THrQfHlcHIBw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CC4Q6AEwAQ#v=onepage&q=if%20%20intrinsic%20%20value%20%20of%20%20a%20%20security%20is%20%20lower%20then%20%20its%20current%20market%20price&f=false)

Question No: 11 ( Marks: 1 ) - Please choose one

If a company possess higher required rate of return, the justified P/E will be.

**Lower**

Higher

Both will be same

None of given options

**(page 80)The P/E ratio reflects investor optimism and pessimism. It is related to the required rate of return. As the required rate of return increases, other things being equal, the P/E ratio decreases.**

[http://www.investorsfriend.com/sustainable\\_p\\_e.htm](http://www.investorsfriend.com/sustainable_p_e.htm)

Question No: 12 ( Marks: 1 ) - Please choose one

What will be the resulting figure, when gross profit is divided by net sales?

Gross margin

Operating margin

Net margin

**Profit margin**

**(page 83) Gross Profit Margin = Gross Profit / Net Sales \* 100**

Question No: 13 ( Marks: 1 ) - Please choose one

Which of the following ratio depicts a firm's ability to cover its short-term obligations?

Dividend yield ratio

Return on assets ratio

Debt coverage ratio

**Current ratio**

**(page 82) The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations**

Question No: 14 ( Marks: 1 ) - Please choose one

In top-down approach of fundamental analysis, investors begin their analysis with:

Company

Industry

**Economy**

Market

**(page 90) Investors begin with the economy and the overall market, considering such important factors as interest rates and inflation.**

**[http://en.wikipedia.org/wiki/Fundamental\\_analysis](http://en.wikipedia.org/wiki/Fundamental_analysis)**

**The top-down investor starts his analysis with global economics, including both international and national economic indicators, such as GDP growth rates, inflation, interest rates, exchange rates, productivity, and energy prices. He narrows his search down to regional/industry analysis of total sales, price levels, the effects of competing products, foreign competition, and entry or exit from the industry. Only then he narrows his search to the best business in that area.**

Question No: 15 ( Marks: 1 ) - Please choose one

Which of the following stage is more important for the investors?

Pioneering stage

**Expansion stage**

Stabilization stage

Decline stage

**(page 98) At the expansion stage of the cycle, industries are improving their products and perhaps lowering their prices, they are more stable and solid, and at this stage they often attract considerable investment funds Investors are more willing to invest in these industries now that their potential has been demonstrated and the risk of failure has decreased.**

**Chapter 14 The expansion stage of the industry life cycle is probably of most interest to investors. (T, moderate)**

**Investments: Analysis and Management, Second Canadian Edition**

**Expansion stage of most interest to investors**

Question No: 16 ( Marks: 1 ) - Please choose one

Which of the following stage should be avoided by investors who are interested in capital gains?

Pioneering stage  
Expansion stage  
**Decline stage**  
Stabilization stage

### **Sector/Industry Analysis**

#### **Investors interested in capital gains should avoid maturity stage**

Question No: 17 ( Marks: 1 ) - Please choose one

Which of the following industry is sensitive to business cycle and price changes?

Growth industry

**Cyclical industry**

Defensive industry

Interest sensitive industry

**Cyclical Industry**

**A term describing an industry that is sensitive to the business cycle and price changes. Many cyclical industries produce durable goods such as raw materials and heavy equipment.**

**[http://www.proz.com/kudoz/english/management/1498272-cyclical\\_industries.html](http://www.proz.com/kudoz/english/management/1498272-cyclical_industries.html)**

Question No: 18 ( Marks: 1 ) - Please choose one

Mutual funds pool the funds of savers and can be used to buy \_\_\_\_\_.

Shares in mutual savings banks only

**A variety of financial instruments**

Shares in the Federal Reserve System

None of the given options

**(Q#6)[http://highered.mcgraw-hill.com/sites/0073523097/student\\_view0/chapter1/quiz\\_2.html](http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter1/quiz_2.html)**

Question No: 19 ( Marks: 1 ) - Please choose one

In an efficient financial market, there would be no \_\_\_\_\_.

Under/over priced securities

Financial intermediaries

Commissions

Taxes

Question No: 20 ( Marks: 1 ) - Please choose one

An efficient market reflects which of the following information?

**Past, current and inferred information**

Future and past information

Past and current information

Current and inferred information

**(question 13)<http://web.ku.edu/~finmhir/FIN410/EXAMS/htm/KEY922F.htm>**

Question No: 21 ( Marks: 1 ) - Please choose one

If stock advances are greater than declines by a wide margin, the market is perceived as

\_\_\_\_\_.

Healthy

Stable

**Stronger because of the widespread movement**

Weaker because of the widespread movement

**(Q#12)**[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0073405175/student_view0/chapter9/multiple_choice_quiz.html)

[hill.com/sites/0073405175/student\\_view0/chapter9/multiple\\_choice\\_quiz.html](http://highered.mcgraw-hill.com/sites/0073405175/student_view0/chapter9/multiple_choice_quiz.html)

Question No: 22 (Marks: 1) - Please choose one

Leverage ratios are designed to:

**Measure a company's capital structure**

Measure the quality of a company's operations

Measure a company's ability to cover its short-term obligations

Measure the percentage of earnings paid to shareholders

**Leverage ratios provide information useful in evaluating a company's capital structure CHAPTER 3**

[http://docs.google.com/viewer?a=v&q=cache:k7MjkakJvaMJ:www.swlearning.com/accounting/baginski/second\\_edition/ppt/module\\_a.ppt+Leverage+ratios+are+designed+to:+Measure+a+company%27s+capital+structure+Measure+the+quality+of+a+company%27s+operations&hl=en&pid=bl&srcid=ADGEESg3-DHJvIbt1cAUnG2rbx02bq1nqIaHUhKgF5dOhgSaaGVz43EWIWu0r-IXgwzvGCvHGAScOkssqbGiLjIjCHaS6N7YvG2t-cS7DXDt\\_8b\\_s37K7iCG7Sc9jA5Mlak03CfR1POD&sig=AHIEtbRpEku\\_Fd68wfXZlavZ9wmlWKqMA&pli=1](http://docs.google.com/viewer?a=v&q=cache:k7MjkakJvaMJ:www.swlearning.com/accounting/baginski/second_edition/ppt/module_a.ppt+Leverage+ratios+are+designed+to:+Measure+a+company%27s+capital+structure+Measure+the+quality+of+a+company%27s+operations&hl=en&pid=bl&srcid=ADGEESg3-DHJvIbt1cAUnG2rbx02bq1nqIaHUhKgF5dOhgSaaGVz43EWIWu0r-IXgwzvGCvHGAScOkssqbGiLjIjCHaS6N7YvG2t-cS7DXDt_8b_s37K7iCG7Sc9jA5Mlak03CfR1POD&sig=AHIEtbRpEku_Fd68wfXZlavZ9wmlWKqMA&pli=1)

Question No: 23 (Marks: 1) - Please choose one

Financial securities with a maturity of less than a year from their original issue date are sold in which of following market?

**Money market**

Bond market

Equity market

Derivative market

**(page233)**

[http://books.google.com/books?id=QVoxIhN\\_y1qC&pg=PA233&dq=Financial+securities+with+a+maturity+of+less+than+a+year&hl=en&ei=iwZ-TduUBsP3rOeThaDGBQ&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CCcO6AEwAA#v=onepage&q=Financial%20securities%20with%20a%20maturity%20of%20less%20than%20a%20year&f=false](http://books.google.com/books?id=QVoxIhN_y1qC&pg=PA233&dq=Financial+securities+with+a+maturity+of+less+than+a+year&hl=en&ei=iwZ-TduUBsP3rOeThaDGBQ&sa=X&oi=book_result&ct=result&resnum=1&ved=0CCcO6AEwAA#v=onepage&q=Financial%20securities%20with%20a%20maturity%20of%20less%20than%20a%20year&f=false)

Question No: 24 (Marks: 1) - Please choose one

An over-the-counter market can be defined as:

**A network of dealers connected electronically**

An illegal secondary market for stocks used primarily by those attempting to evade taxes

A primary market for stocks

A form of centralized exchange

**(page 80)**[http://books.google.com/books?id=GF\\_EO-](http://books.google.com/books?id=GF_EO-ZxyM4C&pg=PA80&lpg=PA80&dq=over-the-counter+market+A+network+of+dealers+connected+electronically&source=bl&ots=3rC0VvjmUy&sig=4e5VYIgeE28vNzp6GqyTKVIT06Ok&hl=en&ei=N6N-TdWcDJHirAfjk6nCBw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CB)

[ZxyM4C&pg=PA80&lpg=PA80&dq=over-the-counter+market+A+network+of+dealers+connected+electronically&source=bl&ots=3rC0VvjmUy&sig=4e5VYIgeE28vNzp6GqyTKVIT06Ok&hl=en&ei=N6N-TdWcDJHirAfjk6nCBw&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CB](http://books.google.com/books?id=GF_EO-ZxyM4C&pg=PA80&lpg=PA80&dq=over-the-counter+market+A+network+of+dealers+connected+electronically&source=bl&ots=3rC0VvjmUy&sig=4e5VYIgeE28vNzp6GqyTKVIT06Ok&hl=en&ei=N6N-TdWcDJHirAfjk6nCBw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CB)

[MQ6AEwAA#v=onepage&q=over-the-counter%20market%20A%20network%20of%20dealers%20connected%20electronically&f=false](#)

Question No: 25 ( Marks: 1 ) - Please choose one

When current assets exceeds current liabilities it is called:

Gross capital

**Working capital**

Net capital

Reserved capital

**(page 83)The working capital means the amount that current assets exceed the current liabilities**

Question No: 26 ( Marks: 1 ) - Please choose one

Balance sheet shows the:

**Financial position of business**

Balances of all accounts

Net profit earned during a period

Expense of a business

**(page 112) Balance sheet is also referred to as statement of financial position or condition, reports on a company's assets, liabilities and net equity as of a given point in time.**

Question No: 27 ( Marks: 1 ) - Please choose one

Which of the following is NOT an asset?

**Accounts payable**

Equipment

Supplies

Cash

Question No: 28 ( Marks: 1 ) - Please choose one

Which of the following categories is NOT a financial statement element?

**Cash flow**

Contributed capital

Assets

Distributions

Question No: 29 ( Marks: 1 ) - Please choose one

For which of the following value of beta, a stock is assumed to be as risky as market?

1.5

**1.0**

2.0

0.5

**Securities A and B are more risky than the market – Beta >1.0**

<http://athene.mit.csu.edu.au/~hskoko/subjects/fin221/lect05.pdf>

Question No: 30 ( Marks: 1 ) - Please choose one

Which of the following is NOT a requirement for an efficient market?

Stock prices incorporate all information

All known information be reflected in prices

The adjustments occur very quickly

**Each adjustment be perfect**

# Paper 6

## MIDTERM EXAMINATION

Spring 2010

### FIN630- Investment Analysis & Portfolio Management

**Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following statement about short selling is **LEAST** accurate?

- ▶ The short seller must pay the lender of the stock any dividends paid by the company.
- ▶ The short seller is required to replace the borrowed securities within six months of a short sale.
- ▶ Proceeds from the short sale cannot be withdrawn from the account.
- ▶ **The short seller hoped that the securities prices would decrease in the future.**

**Question No: 2 ( Marks: 1 ) - Please choose one**

A stop buy order is **MOST** likely:

- ▶ **Used to limit the potential losses on a short sale**
- ▶ Executed if the market price is less than or equal to the specified level
- ▶ An order to purchase a security if the price decreases to a specified level
- ▶ An order that specifies only the time limit

**Question No: 3 ( Marks: 1 ) - Please choose one**

The primary purpose of the liquidity ratios is to determine:

- ▶ The amount of earnings paid to shareholders
- ▶ The amount of working capital tied up in inventory
- ▶ **The ability of a firm to pay off short-term obligations**
- ▶ The relative level of short-term debt

**Question No: 4 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ is a temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements.

- ▶ SuperDot
- ▶ NYSE direct
- ▶ **Trading curb**
- ▶ Ticker tape

**Question No: 5 ( Marks: 1 ) - Please choose one**

A procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value is known as.

- ▶ **Dividend Discount Model**
- ▶ The Residual Earning Model
- ▶ None of the given options
- ▶ Capital Asset Pricing Model

**Question No: 6 ( Marks: 1 ) - Please choose one**

In candlestick chart, what does white body candle depict?

- ▶ Prices are moving down ▶
- ▶ **Prices are moving up ▶**
- ▶ Prices are constant ▶
- ▶ Prices are fluctuating ▶



**Question No: 7 ( Marks: 1 ) - Please choose one**

Which of the following is a popular price pattern?

Double ups ▶

**▶ Head and shoulders ▶**

Triangles ▶

Resistance and support ▶

**Question No: 8 ( Marks: 1 ) - Please choose one**

Primary trend in Dow Theory is known as \_\_\_\_\_.

Wave ▶

Triangle ▶

**▶ Tide**

Rounded bottom ▶

**Question No: 9 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ are qualified and regulated professionals who trade shares and other securities through market makers on behalf of investors.

**▶ Stock brokers**

▶ Members

▶ Specialists

▶ Day traders

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following statement is **TRUE** regarding earning per share?

▶ It represents the company's current obligation

▶ It represents the ability of a company to repay its current liabilities

**▶ It represents per share profit available for distribution to the shareholders**

▶ It represents the percentage of earnings paid to shareholders

**Question No: 11 ( Marks: 1 ) - Please choose one**

Which of the following industries is **LEAST** sensitive to changes in the business cycle?

▶ Manufactures of business plant and equipment

**▶ Machine tools and special equipment, such as for pollution control**

▶ Industries specializing in high technology

▶ A refrigerators manufacturing company

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a fixed income security?

▶ Bonds

▶ Preferred stock

▶ Saving deposits

**▶ Options**

**Question No: 13 ( Marks: 1 ) - Please choose one**

Which of the following is defined as an unmanaged, fixed-income security portfolio put together by a sponsor and handled by an independent trustee?

**▶ Unit investment trust**

▶ Closed-end investment

▶ Open-end investment

▶ Money market fund

**Question No: 14 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ are financial intermediaries that hold a portfolio of securities on behalf of their shareholders.

- ▶ Banking companies
- ▶ Growth companies
- ▶ Value companies

▶ **Investment companies**

**Question No: 15 ( Marks: 1 ) - Please choose one**

Which of the following statement about a security is true, if its beta < 1.0?

- ▶ Security is more risky than the market

▶ **Security is less risky than market**

- ▶ Security is exactly as risky as market
- ▶ It is not possible to predict riskiness of a security by beta

**Question No: 16 ( Marks: 1 ) - Please choose one**

Which of the following would be considered as the most bullish indicator?

- ▶ A price decrease with heavy volume
- ▶ A price increase with small volume

▶ **A price increase on heavy trading**

- ▶ No change in price but an increase in volume

**Question No: 17 ( Marks: 1 ) - Please choose one**

A self-regulatory body that licenses brokers and generally oversees the trading practices of Over the counter(OTC) securities is known as \_\_\_\_\_ .

- ▶ Securities and Exchange Commission (SEC)

▶ **National Association of Security Dealers (NASD)**

- ▶ Initial Public Offering (IPO)
- ▶ Offered for Sale (OFS)

**Question No: 18 ( Marks: 1 ) - Please choose one**

Which of the following industry tend to be composed of relatively volatile and risky stocks?

- ▶ Defensive industries
- ▶ Interest sensitive industries

▶ **Growth industries**

- ▶ Cyclical industries

**Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a requirement for an efficient market?

- ▶ Stock prices incorporate all information
- ▶ All known information be reflected in prices
- ▶ The adjustments occur very quickly

▶ **Each adjustment be perfect**

**Question No: 20 ( Marks: 1 ) - Please choose one**

Which of the following allows you to specify the most you are willing to pay when buying or the least you are willing to accept when selling?

▶ **Limit order**

- ▶ Market order
- ▶ Stop order
- ▶ Good till cancelled order

**Question No: 21 ( Marks: 1 ) - Please choose one**

In a candlestick chart, what does black body candle depict?

- ▶ Prices are moving up
- ▶ **Prices are moving down**
- ▶ Prices are constant
- ▶ Prices are fluctuating

**Question No: 22 ( Marks: 1 ) - Please choose one**

Which of the following is **TRUE** regarding the Dow Theory?

- ▶ Dow Theory is primarily a fundamental analysis tool.
- ▶ Dow Theory was developed by the publisher of Forbes magazine.
- ▶ **Dow Theory identified three movements in security prices.**
- ▶ Dow Theory states that computer algorithms can be used to look for patterns.

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following statement about a security is true, if it's beta > 1.0?

- ▶ **Security is more risky than the market**
- ▶ Security is less risky than market
- ▶ Security is exactly as risky as market
- ▶ It is not possible to predict riskiness of a security by beta

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following situations implies an upward sloping curve?

- ▶ **Accelerating economic activity**
- ▶ Static economic activity
- ▶ Slowing economic activity
- ▶ A recession period

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following stock's price move in opposite direction to that of interest rates?

- ▶ Growth stock
- ▶ Value stock
- ▶ **Interest sensitive stock**
- ▶ Defensive stock

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** a component of ROA?

- ▶ Turnover
- ▶ **Leverage**
- ▶ Sales
- ▶ Net income margin

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following is **TRUE** regarding price earning ratio?

- ▶  $P/E = \text{Earnings available to common stockholders} / \text{outstanding shares}$
- ▶  $P/E = \text{Market price per share} / \text{dividend per share}$
- ▶  **$P/E = \text{Market price per share} / \text{earning per share}$**
- ▶  $P/E = \text{Dividend per share} / \text{earning per share}$

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following is **NOT** an asset?

- ▶ **Accounts payable**
- ▶ Equipment
- ▶ Supplies

► Cash