

Dr.G.R.Damodaran College of Science

(Autonomous, affiliated to the Bharathiar University, recognized by the UGC)Re-accredited at the 'A' Grade Level by the NAAC and ISO 9001:2008 Certified CRISL rated 'A' (TN) for MBA and MIB Programmes

II MBA(PART TIME)[2016-2019]

SEMESTER IV

ELECTIVE:FINANCIAL SERVICES-452W2

Multiple Choice Questions.

1.What is CRR?

- a. Cash Reserve Ratio.
- b. Current Ratio Rate.
- c. Review Report.
- d. Credit Rating Record.

Answer: A

2.Interest rates being charged by Banks in India has shown _____ trend in recent years.

- a. Falling
- b. Rising
- c. Stable
- d. Volatile

Answer: A

3.The first development financial institution in India that has got merged with a bank is ____ .

- a. IDBI.
- b. ICICI.
- c. IDFC.
- d. UTI.

Answer: B

4.Which of the following NBFC converted itself into a commercial Bank?

- a. Tata Finance.
- b. Reliance Capital Trust.
- c. Birla Mutual.
- d. Kotak Mahindra.

Answer: D

5. The rate of which discounting the bills of first class banks is done by RBI is called _____ .

- a. Bank Rate.
- b. Prime Lending Rate.
- c. Loan Rate.
- d. Discounting Rate.

Answer: A

6. Which finance company has been given banking license by RBI recently?

- a. Kotak Mahindra.
- b. Ashok Leyland & Finance.
- c. TVS Finance.
- d. Tata Finance.

Answer: A

7. Gilt edged securities refer to _____.

- a. Government Securities.
- b. Securities issued by municipal corporations.

- c. Securities issued by first class companies.
- d. Securities issued by NBFCs.

Answer: C

8. Indian Banks Association (IBA) has a common net working system for sharing the ATM facilities in Mumbai, which is known as _____.

- a. ATM Network.
- b. Shared Payment Network System.
- c. Cash Network.
- d. None of these.

Answer: D

9. Arbitrage is _____.

- a. buying and selling in two markets simultaneously.
- b. a rate of interest.
- c. a Fee.
- d. a dispute.

Answer : B

10. Exchange risk in case of foreign currency Non Resident (Banks) scheme (FCN). is borne by _____.

- a. RBI.
- b. Depositor.
- c. Govt. of India.
- d. concerned Bank.

Answer : D

11. Which of these is not a credit rating agency?

- a. Moody's .
- b. Standard & Poor's.
- c. Price water house.
- d. ICRA.

Answer : C

12. Consortium Advances refer to _____.

- a. concurrent borrowings.
- b. multiple financing.
- c. joint Financing by more than one bank.
- d. financing of consignment business.

Answer : C

13. Pari Passu charge refers to a charge _____.

- a. ranking in priority, regardless of quantum of advances.
- b. merely notional in nature.
- c. ranking equally in priority in proportion to the lender's share of advance.
- d. none of the above.

Answer : C

14. NABARD refinance for financing Self Help Groups is to the extent of _____.

- a. 25%.
- b. 50%.
- c. 75%.
- d. 100%.

Answer : C

15. As per section 16 of the Banking Regulation Act, 1949 a person can be appointed as a director of how many banking companies?

- a. Three.
- b. Two.

c. One.

d. Four.

Answer : D

16. Nayak Committee Recommendations are applicable for sanction of Fund Based Working Capital Limit upto _____.

- a. Rs.25 lacs.
- b. Rs.1 crores.
- c. Rs. 2 crores.
- d. Rs. 5 crores.

Answer: D

17. Banking ombudsman means _____.

- a. person appointed to recover dues from defaulting borrowers.
- b. a person to whom customer can approach for redress of his grievances.
- c. a person appointed to settle dispute between employees and management.
- d. a person appointed by RBI to oversee the functioning of Foreign Banks.

Answer: B

18. Full form of SLR _____.

- a. Statutory Liquidity Ratio.
- b. State Level Recovery.
- c. Sundry Leverage Ratio.
- d. State Liquity Reserve.

Answer: A

19. C.R.A. in banking parlance stands for _____.

- a. Credit Rating Association.
- b. Credit Rating Agency.
- c. Credit Risk Assessment.
- d. None of these.

Answer: C

20. E.P.S. in share market stands for _____.

- a. Earning per share.
- b. Electronic Payment System.
- c. Employee Pension Scroll.
- d. Equated Payment System.

Answer: A

21. The currency Euro has been introduced w.e.f. _____.

- a. 01.01.1999.
- b. 01.01.2000.
- c. 01.08.1999.
- d. 01.07.2000.

Answer: A

22. The Securitization and Reconstruction of Financial Asset and enforce of Security Interest Act came into force from _____.

- a. 21.08.2002.
- b. 21.06.2002.
- c. 21.07.2002.
- d. 21.12.2002.

Answer: B

23. A bond that is registered in the owner's name by the issuing company is called a _____ bond.

- a. certified
- b. coupon

- c. registered
- d. zero-coupon

Answer: C

24. To be categorized as a schedule Bank the minimum capital & reserve required is _____.

- a. Rs. 10 lacs.
- b. Rs. 5 lacs.
- c. Rs. 20 lacs.
- d. Rs. 7 lacs.

Answer : B

25. Who is authorized to issue coin in India?

- a. RBI.
- b. Ministry of Finance.
- c. SBI.
- d. None of these.

Answer : B

26. The minimum Capital Adequacy Ratio currently fixed by RBI for Banks is _____.

- a. 12%.
- b. 10%.
- c. 9%.
- d. 11%.

Answer : C

27. The full form of RBS is _____.

- a. Risk Based Supervision.
- b. Rating by System.
- c. Role Based Supervision.
- d. Rating Bank Security.

Answer : A

28. RBI has recently permitted which Bank to participate in the Government Securities Repo Market?

- a. SBI.
- b. UTI.
- c. ICICI.
- d. PNB.

Answer : B

29. The ceiling for Banks daily borrowings in Call Money should not exceed _____% of owned funds.

- a. 100%
- b. 50%
- c. 75%
- d. 150%

Answer : A

30. At what frequency can Banks pay interest on Saving Bank Account as per RBI guidelines?

- a. Monthly.
- b. Quarterly.
- c. Half Yearly.
- d. Yearly.

Answer : C

31. Who can fix the interest rates of NRE & FCNB deposits ?

- a. RBI.
- b. Banks, as per the directive of RBI.
- c. Govt. of India.

d. IBA.

Answer : B

32. Which kind of bills should not be discounted by banks as per RBI regulation ?

- a. Customs duty.
- b. Installation charges.
- c. Sale of goods.
- d. Purchase of books.

Answer : A

33. What should be the method of valuation for advances against shares/debentures/ bonds ?

- a. Face value.
- b. Market price.
- c. Book Value.
- d. Average Value.

Answer : B

34. Plastic Cards implanted with computer chip to the data is known as _____.

- a. Credit Card.
- b. ATM Card.
- c. Smart Card.
- d. SME Card.

Answer : C

35. The relationship between the Banker and hirer of Bank Locker is that of _____.

- a. Debtor-Creditor.
- b. Bailor-Bailee.
- c. Licensor-Licensee.
- d. Principal-Agent.

Answer : C

36. The VSAT communication network for banks and financial institutions launched by RBI is known as _____.

- a. SWIFT.
- b. SBI NET.
- c. BANK NET.
- d. INFINET.

Answer : D

37. In finance we refer to the market for short-term government and corporate debt securities as the _____ market.

- a. money
- b. capital
- c. primary
- d. secondary

Answer : A

38. In finance we refer to the market where long term securities are bought and sold as the _____ market.

- a. money
- b. capital
- c. primary
- d. secondary

Answer : B

39. In finance we refer to the market where new securities are bought and sold for the first time as the _____ market.

- a. money

- b. capital
- c. primary
- d. secondary

Answer : C

40. In finance we refer to the market where the existing (already issued) securities are bought and sold for the first time as the _____ market.

- a. money
- b. capital
- c. primary
- d. secondary

Answer : D

41. Consider the following statements:

Mutual funds help the investor in securing _____.

1. diversification of risk.
2. steady appreciation.

Which of the statements(s) given above is/are correct?

- a. 1 only.
- b. 2 only.
- c. Both 1 and 2.
- d. Neither 1 nor 2.

Answer : C

42. What is the full form of the term NAV ?

- a. Nil Accounting Variation.
- b. Net Accounting Venture.
- c. Net Asset Value.
- d. New Asset Venture.

Answer : C

43. As we all know the RBI has raised the Cash Reserve Ratio (CRR) by 25 bps. in April 2010.

What action banks will have to take to implement the same?

1. They will have to deposit \ some more money with the RBI as a reserved money.
 2. Banks will be required to give some more loan to projects of the priority sector.
 3. Banks will be required to give loan equivalent to the CRR to the Govt. of India for its day to day expenditure as and when required.
- a. Only 1.
 - b. Only 2.
 - c. Only 3.
 - d. Only 1 and 2.

Answer : A

44. Which of the following is not a term related to banking/ finance operations ?

- a. Provision Coverage Ratio.
- b. Securitization.
- c. Consolidation.
- d. Derivatives.

Answer : C

45. International portfolio diversification, compared to a purely domestic portfolio diversification, in general will _____.

- a. increase risk.
- b. decrease risk.
- c. have the same amount of risk.
- d. all of the above.

Answer : B

46. _____ is not a major cause of systematic (undiversifiable) risk.

- a. A worldwide recession
- b. A world war
- c. World energy supply
- d. Company management change

Answer : D

47. _____ is/are not a major cause of unsystematic (diversifiable) risk.

- a. Wildcat strikes
- b. New competitors
- c. New product management
- d. Worldwide inflation

Answer : D

48. A portfolio that incurs the smallest risk for a given level of return is called _____.

- a. the efficient frontier.
- b. the optimal portfolio.
- c. the market portfolio.
- d. the efficient portfolio.

Answer : D

49. According to a study by Levy and Lerman, an investment in U.S. bonds compared to internationally diversified bond portfolios is _____.

- a. more efficient.
- b. less efficient.
- c. about the same.
- d. relatively efficient.

Answer : B

50. The difference between open-end and closed-end mutual funds is:

- a. the total number of shares under management grows and shrinks for open-end funds, but is fixed for closed-end funds.
- b. open-end funds can be purchase in a variety of international markets while closed-end funds can only be purchased in their home market.
- c. the total number of shares under management grows and shrinks for closed-end funds, but is fixed for open-end funds.
- d. open-end funds contain securities from various countries while closed-end funds contain securities from just one country.

Answer : C

51. The material wealth of a society is equal to the sum of _____.

- a. all financial assets.
- b. all real assets.
- c. all financial and real assets.
- d. all physical assets.

Answer : B

52. _____ are financial assets.

- a. Bonds
- b. Machines
- c. Stocks
- d. A and C

Answer : A

53. _____ are examples of financial intermediaries.

- a. Commercial banks
- b. Insurance companies
- c. Investment companies

d. All of the above

Answer : D

54. Financial intermediaries exist because small investors cannot efficiently _____.

- a. diversify their portfolios.
- b. gather all relevant information .
- c. assess credit risk of borrowers.
- d. all of the above.

Answer : D

55. Firms that specialize in helping companies raise capital by selling securities are called _____.

- a. commercial banks
- b. merchant banks
- c. savings banks
- d. credit unions

Answer : B

56. Financial assets _____.

- a. directly contribute to the country's productive capacity.
- b. indirectly contribute to the country's productive capacity.
- c. contribute to the country's productive capacity both directly and indirectly.
- d. do not contribute to the country's productive capacity either directly or indirectly.

Answer :B

57. The sale of a mortgage portfolio by setting up mortgage pass-through securities is an example of _____.

- a. credit enhancement .
- b. securitization.
- c. unbundling .
- d. derivatives.

Answer : B

58. Corporate shareholders are best protected from incompetent management decisions by _____.

- a. the ability to engage in proxy fights.
- b. management's control of pecuniary rewards.
- c. the ability to call shareholder meetings.
- d. the threat of takeover by other firms.

Answer : D

59. Merchant bankers perform the following role(s) _____.

- a. market new stock and bond issues for firms.
- b. provide advice to the firms as to market conditions, price, etc.
- c. provide consultancy services for expansion etc.
- d. all of the above.

Answer : D

60. The means by which individuals hold their claims on real assets in a well-developed economy are _____.

- a. investment assets.
- b. depository assets.
- c. derivative assets
- d. financial assets.

Answer : D

61. Commercial banks differ from other businesses in that both their assets and their liabilities are mostly _____ .

- a. illiquid.
- b. financial.

- c. real.
- d. owned by the government.

Answer : B

62. Although derivatives can be used as speculative instruments, businesses most often use them to _____.

- a. attract customers.
- b. appease stockholders.
- c. offset debt.
- d. hedge.

Answer :D

63. A disadvantage of using stock options to compensate managers is that _____.

- a. it encourages managers to undertake projects that will increase stock price.
- b. it encourages managers to engage in empire building.
- c. it can create an incentive for managers to manipulate information to prop up a stock price temporarily, giving them a chance to cash out before the price returns to a level reflective of the firm's true prospects.
- d. all of the above.

Answer : C

64. A fixed-income security pays _____.

- a. a fixed level of income for the life of the owner.
- b. a fixed level of income for the life of the security.
- c. a variable level of income for owners on a fixed income.
- d. a fixed or variable income stream at the option of the owner.

Answer : B

65. Money market securities _____.

- a. are short term.
- b. are highly marketable.
- c. generally very low risk.
- d. all of the above .

Answer :D

66. Financial assets permit all of the following except _____.

- a. consumption timing.
- b. allocation of risk.
- c. separation of ownership and control.
- d. elimination of risk.

Answer : D

67. Asset allocation refers to _____.

- a. choosing which securities to hold based on their valuation.
- b. investing only in "safe" securities.
- c. the allocation of assets into broad asset classes.
- d. bottom-up analysis.

Answer : C

68. Which of the following portfolio construction methods starts with security analysis?

- a. Top-down.
- b. Bottom-up.
- c. Middle-out.
- d. Buy and hold.

Answer : B

69. Which of the following portfolio construction methods starts with asset allocation?

- a. Top-down.

- b. Bottom-up.
- c. Middle-out.
- d. Buy and hold.

Answer :A

70. The highest bond rating issued by Standard & Poor's is:

- a. AAA.
- b. Aaa.
- c. A +.
- d. BB.

Answer : A

71. A mutual fund in which shares are issued only when the fund is organized is called a _____ fund.

- a. closed-end
- b. open-end
- c. load
- d. no-load

Answer : A

72. The value of the mutual fund's portfolio minus the mutual fund's liabilities divided by the number of shares outstanding is called the:

- a. book value.
- b. outstanding balance.
- c. per share value.
- d. net asset value.

Answer :D

73. When one investment company manages a group of mutual funds, it is called a(n):

- a. family of funds.
- b. exchange fund.
- c. diversification fund.
- d. versatility fund.

Answer : A

74. Gowtham is buying shares in a mutual fund that invests in companies that are all within the same industry. What type of mutual fund has he purchased?

- a. A sector fund
- b. A small cap fund
- c. An index fund
- d. A growth fund

Answer : A

75. A market for existing financial securities that are currently traded between investors is called the _____ market.

- a. fundamental
- b. efficient
- c. secondary
- d. primary

Answer : C

76. Mr. Mohan is thinking about buying an investment. The investment option that he is thinking about buying is an investment where investors pool their money. One of the key features is that it is managed by professional managers. What investment is Mr. Mohan thinking about purchasing?

- a. Common Stock
- b. Corporate Bond
- c. Real Estate
- d. Mutual Fund

Answer : D

77. Mr.Sundar is thinking about buying an investment. The investment option that he is thinking about buying is a written pledge by a corporation to repay a specified amount of money. It also pays interest payments every 6 months until it matures. What investment is Mr.Sundar thinking about purchasing?

- a. Common Stock
- b. Preferred Stock
- c. Corporate Bond
- d. Real Estate

Answer : C

78. Shanmugam is thinking about buying an investment. The investment option that he is thinking about buying is an ownership claim on the company. The most important priority he has with this investment is receiving dividends before dividends are paid to other types of investments. What investment is Shanmugam thinking about purchasing?

- a. Common Stock
- b. Preferred Stock
- c. Corporate Bond
- d. Real Estate

Answer : B

79. Govind is thinking about buying an investment. The investment option that he is thinking about buying represents the most basic form of ownership and pays a dividend. The dividend on this investment is paid after all other payments and dividends have been made. What investment is Govind thinking about purchasing?

- a. Common Stock
- b. Preferred Stock
- c. Corporate Bond
- d. Real Estate

Answer : A

80. Money appears to have a major influence on _____.

- a. inflation.
- b. the business cycle.
- c. interest rates.
- d. each of the above.

Answer : D

81. An increase in the growth rate of the money supply is most likely to be followed by _____.

- a. a recession.
- b. a decline in economic activity.
- c. inflation.
- d. all of the above.

Answer : C

82. A sharp decrease in the growth rate of the money supply is most likely to be followed by

- a. a decline in economic activity.
- b. an upswing in the business cycle.
- c. inflation.
- d. all of the above.

Answer : A

83. When you purchase shares of corporate stock, then:

- a. you have loaned money to the corporation.
- b. you own part of the corporation.
- c. you have made new funds available to the corporation.
- d. all of the above.

Answer : B

84. Suppose you buy \$1,000 worth of newly issued IBM bonds. Which of the following is correct?

- a. You now own a small portion of IBM corporation.
- b. You have loaned \$1,000 to IBM corporation.
- c. Both of the above are correct.
- d. None of the above are correct.

Answer : B

85. Monetary policy consists of _____.

- a. controlling taxes to influence consumer and business spending.
- b. influencing the availability of bank credit by changing interest rates.
- c. adjusting the level of government expenditures to stimulate economic activity.
- d. all of the above.

Answer : B

86. Financial intermediaries _____.

- a. channel funds from savers to borrowers.
- b. greatly enhance economic efficiency.
- c. have been an source of many financial innovations.
- d. have done all of the above.

Answer : D

87. Which of the following cannot be described as indirect finance?

- a. You take out a mortgage from your bank.
- b. An insurance company lends money to General Motors Corporation.
- c. You borrow Rs.1000 from your best friend.
- d. You buy shares in a mutual fund.

Answer : C

88. Which of the following is a short-term financial instrument?

- a. Treasury bill.
- b. Share of Tata Finance Ltd.
- c. government bond with a maturity of 2 years.
- d. Residential mortgage.

Answer : A

89. Which of the following statements about the characteristics of debt and equity is true?

- a. Bond holders are a residual claimant.
- b. The income from bonds is typically more variable than that from equities.
- c. Bonds pay dividends.
- d. None of the above.

Answer : D

90. Which of the following is traded in a money market?

- a. Preference shares.
- b. Mortgages.
- c. Common stocks.
- d. Treasury bills.

Answer : D

91. Which of the following is a depository institution?

- a. Life insurance company.
- b. Credit union.
- c. Pension fund.
- d. Finance company.

Answer : B

92. The primary assets of a mutual savings bank are

- a. money market instruments.

- b. corporate bonds and stock.
- c. consumer and business loans.
- d. mortgages.

Answer : D

93. The primary liabilities of a savings and loan association are _____.

- a. bonds.
- b. mortgages.
- c. deposits.
- d. commercial paper.

Answer : C

94. A bond denominated in a currency other than that of the country in which it is sold is called a _____.

- a. foreign bond.
- b. eurobond.
- c. equity bond.
- d. currency bond.

Answer : B

95. Financial intermediaries promote efficiency and thereby increase people's wealth _____.

- a. by reducing the transaction cost of linking together lender and borrowers.
- b. to the extent that they help solve problems created by adverse selection and moral hazard.
- c. by providing additional jobs.
- d. because of only (a. and (b. of the above.

Answer : D

96. Contractual savings institutions include _____.

- a. commercial banks and thrifts.
- b. life insurance companies and pension funds.
- c. finance companies and mutual funds.
- d. all of the above.

Answer : D

97. Government Treasury bills are _____.

- a. issued in three-, six-, nine-, and twelve-month maturities.
- b. the most liquid of the money market instruments.
- c. the safest of all the money market instruments.
- d. are only (b) and (c) of the above.

Answer : D

98. All of the following are financial intermediaries except _____.

- a. commercial banks.
- b. insurance companies.
- c. Treasury.
- d. mutual funds.

Answer : C

99. Life insurance policies typically contain a clause stating that the company will not be required to pay death benefits in the event that the insured commits suicide. Life insurance companies include such clauses in insurance contracts to protect against the _____ problem.

- a. time value of money.
- b. adverse selection.
- c. restrictive covenant.
- d. defined contribution.

Answer : B

100. Lisa wants to add a new room to her house. What type of finance company will she deal with in getting the loan to finance the room addition?

- a. Sales finance company
- b. Housing finance company
- c. Business finance company
- d. Public finance company

Answer : B

101. Mutual funds that charge a sales commission when shares are purchased are called _____.

- a. no-load funds.
- b. loaded funds.
- c. sinking funds.
- d. sinking-charge funds.

Answer : B

102. When an investment bank purchases a new issue of securities in the hopes of making a profit, it is said to _____ the issue.

- a. pawn
- b. backstock
- c. syndicate
- d. underwrite

Answer : D

103. Brokers are distinguished from the dealers in that brokers do not _____.

- a. hold inventories of securities.
- b. make profits.
- c. incur losses.
- d. deal directly with the public.

Answer : A

104. Prior to making a loan, banks screen their prospective loan customers to avoid the problem of _____.

- a. moral hazard.
- b. diversification.
- c. adverse selection.
- d. direct finance.

Answer : C

105. When borrowers have superior information about the potential returns and risks associated with an investment project, it results in the problem referred to as _____.

- a. direct finance.
- b. indirect finance.
- c. financial intermediation.
- d. asymmetric information.

Answer : D

106. Suppose that Mr. X receives a business loan to purchase equipment for his manufacturing company. After he receives the loan, he decides to go on a vacation with the money. This is an example of _____.

- a. moral hazard.
- b. adverse selection.
- c. direct finance.
- d. direct transformation.

Answer : A

107. Financial intermediaries _____.

- a. solve some of the problems associated with asymmetric information.
- b. decrease transaction costs for borrowers and lenders.
- c. allow borrowers and lenders to engage in risk sharing.
- d. all of the above.

Answer : D

108. Investment banks facilitate the sale of securities in the _____.

- a. primary market.
- b. secondary market.
- c. retail market.
- d. wholesale market.

Answer : A

109. Which of the following assets is most liquid?

- a. 2-year Treasury bonds.
- b. shares of common stock.
- c. passbook savings accounts.
- d. gold bars.

Answer : C

110. Starting January 1, 1999 the _____ became the official currency of countries joining the European

Monetary System:

- a. euro
- b. franc
- c. dollar
- d. yen

Answer : A

111. The conversion of a barter economy to one that uses money _____.

- a. increases efficiency by reducing the need to exchange goods.
- b. increases efficiency by reducing transaction costs.
- c. has no effect on economic efficiency since efficiency is a production concept, not an exchange concept.
- d. decreases efficiency by reducing the need to specialize.

Answer : B

112. A sharp decline in market interest rates will:

- a. increase the price of existing bonds.
- b. increase the yield on existing bonds.
- c. decrease the price of existing bonds.
- d. do none of the above.

Answer : A

113. According to the Fischer Effect, interest rates rise when _____.

- a. national income increases.
- b. the economy moves into a recession.
- c. price deflation occurs.
- d. expected inflation rises.

Answer : B

114. In which of the following situations would you rather be borrowing?

- a. the interest rate is 20% and expected inflation rate is 15%.
- b. the interest rate is 4% and expected inflation rate is 1%.
- c. the interest rate is 13% and expected inflation rate is 15%.
- d. the interest rate is 10% and expected inflation rate is 15%.

Answer : D

115. It is normally true that, the longer the time to maturity of a Government Treasury bill _____.

- a. the lower the discount rate.
- b. the less liquid the asset.
- c. the lower the level of taxation on the Treasury bill.
- d. the lower the market risk in the Treasury bill.

Answer : B

116. Transactions costs are lowest in _____.

- a. Treasury bills.
- b. common stocks.
- c. government bonds.
- d. municipal bonds.

Answer : A

117. The least liquid asset below is _____.

- a. Treasury bond.
- b. money market mutual fund share.
- c. passbook savings account.
- d. checking account deposit.

Answer : A

118. To be considered highly liquid, an asset must _____.

- a. be easily convertible to the medium of exchange.
- b. not fluctuate sharply in value.
- c. be sellable without substantial transactions costs.
- d. exhibit all of the above qualities.

Answer : D

119. Which of the following bears the most market risk?

- a. Corporate bond
- b. Savings account deposit
- c. Certificate of deposit
- d. Checking account deposit

Answer : A

120. Which of the following is NOT true?

- a. Liquidity and risk are positively related
- b. Risk and yield are positively related
- c. Liquidity and yield are inversely related
- d. All of the above are true

Answer : A

121. Which asset carries the greatest default risk?

- a. Corporate bond
- b. Corporate stock
- c. Long-term Treasury bond
- d. Money market mutual fund shares

Answer : B

122. Suppose that the real interest rate remains constant at 3 percent while expected inflation increases from 4 percent to 6 percent. Then the nominal interest rate _____.

- a. increases from 4 percent to 6 percent.
- b. increases from 7 percent to 9 percent.
- c. increases from 1 percent to 3 percent.
- d. does none of the above.

Answer : B

123. The decline in interest rates tends to be most pronounced in _____.

- a. the first half of recessions.
- b. the second half of recessions.
- c. the first half of recoveries.
- d. the second half of recoveries.

Answer : B

124. If market interest rates rise _____.

- a. bond prices must rise.
- b. bond prices must fall.
- c. bond prices cannot fall.
- d. bond prices will either rise or fall.

Answer : B

125. The predominant factor driving the long-run behavior of interest rates has been _____.

- a. budget deficits.
- b. business cycles.
- c. expected inflation.
- d. exchange rate behavior.

Answer : C

126. If market interest rates rise _____.

- a. long-term bondholders will experience capital losses as they sell bonds.
- b. long-term bondholders will experience capital gains as they sell bonds.
- c. treasury bill holders lose; bondholders do not.
- d. then none of the above occur.

Answer : A

127. If government substantially relaxes depreciation allowances for firms, we would expect:

- a. the supply of loanable funds to increase and real interest rates to fall.
- b. the supply of loanable funds to decrease and real interest rates to rise.
- c. the demand for loanable funds to increase and real interest rates to rise.
- d. the demand for loanable funds to decrease and real interest rates to rise.

Answer : C

128. In the money market, when the interest rate is below the equilibrium interest rate, there is an excess for (of) money. People will try to sell bonds, and the interest rate will _____.

- a. demand; rise
- b. demand; fall
- c. supply; fall
- d. supply; rise

Answer : A

129) The most plausible explanation for why interest rates would rise is _____.

- a. the economy entering into a recession.
- b. the demand for money falling in the loanable funds market.
- c. rapid declines in the level of national income.
- d. the continual increase in expected inflation.

Answer : D

130. Which of the following is a fundamental commercial bank accounting identity?

- a. Assets plus capital equals liabilities
- b. Assets plus liabilities equals capital
- c. Assets minus liabilities equals capital
- d. None of the above

Answer : C

131. Which of the following is a source of commercial bank funds?

- a. Deposits
- b. Capital
- c. Non deposit borrowing
- d. All of the above

Answer : D

132. On the commercial bank balance sheet, which of the following is an asset?

- a. Capital accounts
- b. Deposits with RBI

c. Transactions deposit

d. All of the above

Answer : B

133. The securities purchased by a bank for investment purposes are known as _____.

a. Primary reserves.

b. Secondary reserves.

c. Equity capital.

d. Discounts.

Answer : B

134. Typically, the largest portion of bank profits stems from _____.

a. loans.

b. securities.

c. fees for services.

d. derivatives.

Answer : A

135. Which of the following bank assets is the most liquid?

a. Consumer loans.

b. State and local government securities.

c. Physical capital.

d. Government securities.

Answer : D

136. Commercial banks obtain funds by _____.

a. issuing demand deposits.

b. borrowing from other banks.

c. issuing ownership claims (equity).

d. all of the above.

Answer : D

137. A bank failure is more likely to occur when _____.

a. a bank holds more government securities

b. a bank suffers large deposit outflows.

c. a bank hold more excess reserves.

d. a bank has more bank capital.

Answer : B

138. Which of the following is a bank regulatory agency?

a. SEBI.

b. ICRA.

c. ICICI.

d. IFCI.

Answer : A

139. When a right to purchase securities is given, it is known as _____.

a. call option

b. put option

c. call and put option

d. all of these

Answer : C

140. The important credit rating agencies working in India are _____.

a. CRISIL.

b. ICRA.

c. CARE.

d. all of these.

Answer : D

141. A financial asset should necessarily have
- a claim to a payment in the form of an instrument
 - an underlying asset with a charge over it
 - Parting of money today with an expectation that it will be returned in future with some addition to it
 - Both (a) (b) and (c) above

Answer : D

142. Which is the essential feature of a call money market?
- Maturity period of 1-15 days.
 - Market determined interest rates.
 - Low liquidity.
 - Both (a) and (b) above.

Answer : D

143. The apex financial institution In India that promotes housing finance is _____.
- Housing & Urban development Corporation.
 - National Housing Bank.
 - Housing Development Finance Corporation Ltd.
 - Cooperative Housing Finance Society.

Answer : B

144. The money lent in money market for a period of 2 to 15 days is referred to as _____.
- call money.
 - notice money.
 - demand loan.
 - term loan.

Answer : B

145. Which of the following is the feature of Gilt-edged securities?
- Only repayment of principle is secured
 - They are issued by non-govt. service organizations
 - They are default securities
 - The Payments of both interest and principal are secured

Answer : D

146. Which of the following provides liquidity to money market instruments by creating a secondary market where they can be traded?
- Discount and Finance House of India
 - National Securities Depository Ltd
 - State Bank of India
 - Reserve Bank of India

Answer : A

147. Which of the following is an example of Non-Fund Based Activity of an NBFC?
- Bill discounting
 - Leasing
 - Issue management
 - Hire purchase

Answer : C

148. The minimum maturity period for a certificate of deposit is _____.
- Fifteen days
 - One month
 - Three months
 - Six months

Answer : A

149. Public debt in the Indian economy is being managed by _____.

- a. SBI.
- b. Ministry of Finance.
- c. RBI.
- d. Ministry of Commerce and Trade.

Answer : C

150. Which of the following is not a feature of National Stock Exchange?

- a. NSE was promoted by FIs at the behest of GOI.
- b. The trading is on-line in national net work.
- c. The volume of trading in it is less than that of BSE.
- d. it has a debt market segment.

Answer : C

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