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Asad Munir

Vu Askari Team

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FIN630 6 Midterm Papers & 200 MCQS...

Solved By...

Asad Munir..

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

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

There are ____ broad categories of financial assets.

2

3

4

5

three broad categories of financial assets, viz. stocks bonds and cash. Stocks refer to equity and equity related instruments. Bonds are debt instruments that have a maturity of more than one year. Cash represents bank deposits and debt instruments that have a maturity of less than one year.

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

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)

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The *Chartered Financial Analyst (CFA)* program promotes investment education and ethical behavior among those involved in the investment business.

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

The fair price function removes the fear of buying or selling at rip off price. The greater number of participants and the more formal the marketplace, the greater is the likelihood that you are getting a fair 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

The trading of listed securities in the NASDAQ market is known as the third market. The third market may offer greater trading flexibility than the exchanges, particularly with regard to trading rules and fees.

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

Blue chip stocks are stocks of well-established companies that have stable earnings and no extensive liabilities. They have a track record of paying regular dividends, and are valued by investors seeking relative safety and stability. The name comes from the blue-colored chips in the game of poker, which are typically the most valuable.

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

Short sales can be executed only on an uptrend

Short sales are all done on margin

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Short sales may be executed by both individuals and market makers

When using a broker, you will need to set up an account. The account that's set up is either a cash account or a margin account. A cash account requires that you pay for your stock when you make the purchase, but with a margin account the broker lends you a portion of the funds at the time of purchase and the security acts as collateral.

When an investor goes long on an investment, it means that he or she has bought a stock believing its price will rise in the future. Conversely, when an investor goes short, he or she is anticipating a decrease in share price. Short selling is the selling of a stock that the seller doesn't own. More specifically, a short sale is the sale of a security that isn't owned by the seller, but that is promised to be delivered

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

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

Small cap companies

Mid cap companies

Growth companies

Large cap companies

Although no precise definition has been stated for these terms most analysts consider a firm with capitalization less than \$500 million to be a small cap stock' Lipper Analytical Services defines a mid-cap firm as one with capitalization between \$800 million and \$2 billion. Others extend the mid-cap range up to \$6 billion.

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

Dividend Discount Model is a procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value.

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

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

Black [page 55]

White

Blue

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Red

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

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: 13 (Marks: 1) - Please choose one
On Balance Volume technique of technical analysis was developed by:
Charles Dow
Joseph Granville
John Bollinger
Welles Wilder

Joseph Granville created an on-balance volume technique in 1976, in his classic “New Strategy of Daily Stock Market Timing for Maximum Profits.” His “On-balance Volume” (OBV) has led the way for many other strategies, each assuming the marketplace is divided between “smart money” and “the general public.”

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

The advance-decline line, often referred to as the breadth of the market, results from plotting a running of these numbers across time

Question No: 15 (Marks: 1) - Please choose one
The Elliot Wave Theory is based on repeating _____ waves cycle.

- 4
- 5
- 7
- 8**

Elliott defined two types of waves: The impulse wave (which has a structure made up of 5 waves), and the corrective wave (which has a structure made up of 3 waves). **The basic**

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cycle is comprised of 8 waves: The first 5 waves form an ascending impulse movement. The 3 sub-waves - a, b, and c - form a corrective wave. This cycle is basically infinite, each wave can be comprised of one or more cycles of shorter durations

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

The short interest for a security is the number of shares that have been sold short but not yet

bought back. The short interest ratio can be defined relative to shares outstanding or average

daily volume, as in;

Short interest ratio = Total shares sold short / Average daily trading volume

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

ABC Furnitures worth \$51 million. What is another term for this?

Book value

Earning per share

Market value

Cost per share

The book value of a company is generally considered its net worth; the book value per share would be the net worth of a company divided by the number of shares outstanding.

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

<http://www.investopedia.com/terms/p/price-earningsratio.asp>

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

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

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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

A fundamental analysis term for an industry that is sensitive to the business cycle and price changes. Most cyclical industries produce durable goods such as raw materials and heavy equipment.

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

[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0073136484/student_view0/chapter3/multiple_choice_quiz.html)

[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)

Stockholders' Equity = Total Assets - Total Liabilities

OR

Stockholders' Equity = Share Capital + Retained Earnings - Treasury Shares

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

http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter1/quiz_2.html

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

<http://books.google.com.pk/books?id=ZtJXlvNDSc4C&pg=PA78&lpg=PA78&dq=%22an+investment+company+whose+capitalization+constantly+changes+as+new+shares+are+sold+and+outstanding+shares+are+redeemed%22&source=bl&ots=hk7crs6tXJ&sig=3ikkkZeFKoQsSYZyGLgGfsYVjZ0&hl=en&ei=BdeATZieLI7q4gb16>

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7iKCA&sa=X&oi=book_result&ct=result&resnum=3&ved=0CCIQ6AEwAg#v=one
page&q=%22an%20investment%20company%20whose%20capitalization%20cons
tantly%20changes%20as%20new%20shares%20are%20sold%20and%20outstandi
ng%20shares%20are%20redeemed%22&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://quizlet.com/1195584/investment-chapter-3-flash-cards/>

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

A price increase on small volume is not as bullish as one accompanied by heavy trading. Conversely, a price decline on small volume is not as bearish as a decline accompanied by a large increase in the number of shares traded.

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

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

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

<http://www.metaglossary.com/meanings/508643/>

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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

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

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

[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/0073526789/student_view0/chapter9/multiple_choice_quiz.html)

[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

[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: 31 (Marks: 5)

Differentiate between income stocks and penny stocks.

Question No: 32 (Marks: 10)

Define short selling and describe the procedure of short selling in detail.

MIDTERM EXAMINATION

Spring 2010

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

Time: 60 min

Marks: 44

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

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

- ▶ SuperDOT
- ▶ NASDAQ
- ▶ Auction market
- ▶ NYSE direct

The Exchange launches NYSE Direct+, an automatic execution service, in a pilot program. NYSE Direct+ provides immediate automatic execution of limit orders up to 1,099 shares at the published NYSE quote.

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

The trading of listed securities in the NASDAQ market is known as the third market. The third market may offer greater trading flexibility than the exchanges, particularly with regard to trading rules and fees.

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)

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**

Income stocks are those that historically have paid a larger-than-average percentage of their net income as dividends

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

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

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

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

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 ▶

Prices moving above the Moving Average indicate an uptrend. In cases when you have both high volume and high price, these indicate an uptrend in stock market. Based on this, you may decide to buy the stock.

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 ▶

Ralph Nelson Elliott developed the Elliott Wave Theory in the late 1920s in fact traded in repetitive cycles. It states that stock prices are governed by cycles founded upon the Fibonacci series (1-2-3-5-8-13-21...). Elliott believed that market prices rose and fell in a series of waves based on the same Golden ratio or Golden mean that Fibonacci proved.

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

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

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- ▶ Debt coverage ratio
- ▶ Price-to-sales ratio
- ▶ **Price-to-market value ratio**
- ▶ Price-to-book value ratio

The price-to-book value ratio (P/B) is the ratio of share price to stockholder equity. Book value represents the company's theoretical liquidation value per share if the company shut down operations, paid off its debts, and sold off its assets. As such, the usefulness of book value as a valuation tool depends significantly on the industry, with some being more capital intensive than others.

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

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

A new investing trend of increasing importance is the exchange-traded funds (ETFs). These new financial assets have some characteristics of index mutual funds, closed-end funds, and even individual stocks. 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 investment strategy involving ongoing buying and selling actions by the investor.

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Active investors purchase investments and continuously monitor their activity in order to exploit profitable conditions

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

Costs incurred when buying or selling securities. These include brokers' commissions and spreads (the difference between the price the dealer paid for a security and the price at which it can be sold).

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

http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter3/quiz_2.html

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 [page 6]**
- ▶ Economic function
- ▶ Exchange function

The continuous price function enables market participants to get accurate, up-to-date price information.

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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.

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

<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

A defensive industry is one that is relatively insensitive to changes in the economic environment. Demand for its products will remain fairly level regardless of the economy, interest rates or fiscal policy. Defensive industries include food, pharmaceuticals and utilities.

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**

Question No: 21 (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**

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- ▶ 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: 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.

Question No: 24 (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: 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

A stock that is particularly sensitive to changes in interest rates. Often interest-sensitive stocks are bank stocks. When interest rates rise, shares of banks may move lower. That occurs because banks are locked into long-term loan contracts with borrowers and can't raise their interest rates up to the market rate, which can pressure earnings. The interest rate they have to pay to deposit holders increases also.

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

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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 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.

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.

Question No: 29 (Marks: 3)

Outline the rationale for sector rotation?

Answer:

- This strategy is involving the shifting sector weights in the portfolio for taking advantage of those sectors
- That are expected to do relatively better and avoid or deemphasize those sectors
- That are expected to do relatively worse.
- Investors employing this strategy are betting that particular sectors will repeat their price performance relative to the current phase of the business and credit cycle.

Question No: 30 (Marks: 3)

What is meant by cooking the books? What measures should be taken to avoid it?

Answer:

Cooking the books is an unethical practice of misrepresenting company's financial

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standing. When cooking the books, corporations typically manipulate their accounting records and financial statements. Bookmark

Question No: 31 (Marks: 5)

What is the purpose of ratio analysis?

Answer:

Purpose of Ration Anaysis:

- It help us to check either a business is doing better this year than previous years
- Also it tell us about our business is doing better and worse comparative to other businesses who doing business of same the same things.
- By using the ratio analysis we come to know our business is how much profitable? Mean to know business profit.
- Its purpose to know the money to pay its bills and we can even tell whether its shareholders should be happy.

Question No: 32 (Marks: 5)

What is meant by the required rate of return?

Answer:

Ratio analyses gives us complete look over business. The basic purpose of the ration analyses is to judge that whare the business stand and also make he future planning of the business Ratio analysis can also help us to check whether a business is doing better this year than it was last year and it can tell us if our business is doing better or worse than other businesses doing and selling the same things. In addition to ratio analysis being part of an accounting and business studies.

Discount rate for valuing stock is called required rate of return the required rate of return for the stock or any security is the minimum required rate of return to persuade any investor to purchase that stock.

Required rate of return can be calculated by following

Required rate of return = risk – free rate + risk premium

Many different required rate of return for example the average required rate of return of favorite stock is diverse from average rate of return on bonds

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Level of required rate of return is changes over time for example:

Required rate of return is changed and inflationary rat is changed because it is a component of risk free rate of return which is also a component of required rate of return.

MIDTERM EXAMINATION
Spring 2010
FIN630- Investment Analysis & Portfolio Management (Session - 2)
Time: 60 min
Marks: 44

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

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

- ▶ Bonds
- ▶ Preferred stock
- ▶ Saving deposits
- ▶ **Options**

A fixed income security usually provides a known cash flow with no growth in the income stream.

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

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)

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**

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- ▶ 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

This is one of the most popular and reliable chart patterns in technical analysis. Head and shoulders is a reversal chart pattern that when formed, signals that the security is likely to move against the previous trend

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

Primary trend in Dow Theory is known as _____.

- ▶ Wave
- ▶ Triangle
- ▶ **Tide**
- ▶ Rounded bottom

Each market trend has three parts compared to tides, waves and ripples.

The primary (major) trend or tide is a long term trend lasting from a year to several years.

The secondary trend (or mid-term trend) or wave lasts three weeks to three months and represents corrections of one third to two thirds of the previous movement - most often fifty percent of the movement. The minor trends (short-term trends) or insignificant ripples last less than three weeks and represent fluctuations in the secondary trend.

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

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▶ **The ability of a firm to pay off short-term obligations**

▶ The relative level of short-term debt

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[hill.com/sites/0073405159/student_view0/chapter8/multiple_choice_quiz.html](http://highered.mcgraw-hill.com/sites/0073405159/student_view0/chapter8/multiple_choice_quiz.html)

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

▶ Defensive industries

▶ **Interest sensitive industries**

▶ Growth industries

▶ Cyclical industries

Rising interest rates are perceived as bad for stocks in general and pressure the entire market. Interest sensitive industries such as homebuilders, utilities, and all companies carrying high debt can be especially hard-hit when rates rise. Banks and others in the financial sector suffer when the spread between short- and long-term interest rates narrows.

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

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

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security portfolio put together by a sponsor and handled by an independent trustee

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

The most popular form of Investment Company. Mutual funds hold a portfolio of securities on behalf of their shareholders, who buy shares from the fund and sell them back to the fund. The shareholders are entitled to a pro rata share of all income and capital gains earned by the mutual fund, after deduction of expenses

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

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 market
- ▶ 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

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- ▶ 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

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**.

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

White candles represent stock advances, with black candle representing declines.

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.

1. The market has three movements

(1) The "main movement", primary movement or major trend may last from less than a year to several years. It can be bullish or bearish. (2) The "medium swing", secondary reaction or intermediate reaction may last from ten days to three months and generally retraces from 33% to 66% of the primary price change since the previous medium swing or start of the main movement. (3) The "short swing" or minor movement varies with opinion from hours to a month or more. The three movements may be simultaneous, for instance, a daily minor movement in a bearish secondary reaction in a bullish primary movement.

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

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

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

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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

Upward sloping and steepening curve implies accelerating economic activity. Flat structure implies a slowing economy. Inverted curve may imply a recession.

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 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: 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 Order specifies a price and time limit, just like a limit order. The difference is that a stop order is only executed if a specified price, called the stop price is touched.

Question No: 29 (Marks: 3)

Outline the rationale for sector rotation?

Question No: 30 (Marks: 3)

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Keeping in view the business cycle, describe which industries are least sensitive to changes in the economy? Give two examples.

Question No: 31 (Marks: 5)

Why is industry analysis valuable?

Question No: 32 (Marks: 5)

State any five objectives of studying balance sheet in fundamental analysis?

**INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT
SPRING SEMESTER 2008**

Quiz:

1) Which of the following types of orders would normally have the most rapid execution?

a) Market order

b) Limit order

c) Good-till-canceled order

d) Stop order

Market orders are to be executed as soon as possible after reaching the exchange floor.

2) Which of the following statements regarding short sales is not true?

a) Short sales are done with the expectation that prices will rise.

b) Short sales can be executed only on an uptrend.

c) Short sales are all done on margin.

d) Short sales may be executed by both individuals and market makers.

3) The price at which a security dealer sells a security is known as:

a) Bid Price

b) Offer Price

c) Market Price

d) Order Price

4) More investors may be using technical analysis now than in earlier periods because:

a) There is now more empirical evidence supporting technical analysis.

b) The Internet makes more data available to track stock prices.

c) More investors are able to understand the quantitative calculations of technical analysis.

d) More business schools are now teaching technical analysis.

5) Which of the following is true regarding the Dow Theory?

a) The Dow Theory was developed by the publisher of Forbes magazine.

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- b) The Dow Theory is primarily a fundamental analysis tool.
c) The Dow Theory identified three movements in security prices.
d) Dow Theory is a notion that computer algorithms can be taught to look for optimum patterns.
- 6) Which of the following would be considered the most bullish indicator?
a) A price increase
b) A price increase with small volume
c) A price increase on heavy trading
d) No change in price but an increase in volume
- 7) Which are the two ratio areas that are of the greatest concern to stockholders?
a) Liquidity and profitability
b) Liquidity and leverage
c) Profitability and activity
d) Profitability and leverage
- 8) When might a high return on equity not be desirable?
a) If the firm were not able to sustain the high return on equity
b) If the firm were in the rapid growth cycle of the life cycle
c) If the firm had a large amount of debt financing
d) If the firm did not have as high a return on assets
- 9) In order for any dividend valuation model to reflect a valid stock price for a company,
a) The company must pay dividends.
b) The dividend growth rate must remain constant.
c) The required rate of return (discount rate) must remain constant
d) The company should pay interim dividend.
- http://highered.mcgraw-hill.com/sites/0073405139/student_view0/chapter7/multiple_choice_quiz.html
- 10) Which type of order is often used by investors who have bought a security and want to protect themselves from a falling price?
a) Market order
b) Limit order
c) Stop order
d) Good-till-canceled order

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

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

Standardized financial liability instrument

Open-end investment

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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: 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 then 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

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

Lesson #11 ppt

The higher the required rate of return, k, the lower the justified P/E

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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

Pioneering stage offers the highest potential returns, greatest risk
Investors interested in capital gains should avoid maturity stage
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

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

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

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

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http://pages.stern.nyu.edu/~adamodar/New_Home_Page/invemgmt/effdefn.htm

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 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

The breadth of the market is a measure of the extent to which movement in a market index is reflected widely in the price movements of all the stocks in the market. The most common measure of breadth is the spread between the number of stocks that advance and decline in price. If advances outnumber declines by a wide margin, then the market is viewed as being stronger because the rally is widespread.

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

http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter3/quiz_2.html

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

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

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- ▶ Exchange function

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

The most important function is the economic function. This mechanism facilitates the transfer of money from savers to borrowers. As an example, consider the secondary market for home mortgages.

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.

- ▶ SuperDot
- ▶ NYSE Direct
- ▶ Ticker tape
- ▶ Trading Curb

Ticker tape is a computerized device that relays financial information to investors around the world, including the stock symbol, the latest price and the 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

Income stocks are those that historically have paid a larger-than-average percentage of their net income as dividends

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

Value comes from utility; utility comes from a variety of sources.

Fundamental analysts believe securities are priced according to fundamental economic data. Technical analysts think supply and demand factors play the most important role.

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

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According to Dow Theory, primary trend is a:

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

The Primary Trend is the broad long-term up or down movements in prices, lasting a year or more. Inside the Primary Trend is the **Secondary Trend** which can either interrupt the Primary Trend's progress or push it forward, depending upon whether this intermediate term price trend is going with the grain or against it, lasting typically from a few weeks to several months or occasionally more than a year. Then there are the **Minor Trends**, short-term, lasting anywhere from a few days to a few weeks. Again, the Minor trend can move prices either in the same or opposite direction as the Primary or Secondary trend.

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

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 [Page 68]
- ▶ Dow Theory
- ▶ Elliot Wave Theory
- ▶ None of the given options

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

The 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

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- ▶ Inventory turnover ratio
- ▶ Debt coverage ratio

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**

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**

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[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**

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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

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

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- ▶ Interest-sensitive stocks
- ▶ Capital goods stocks
- ▶ Defensive stocks

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

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

Technical analysts do not deny fundamental analysis but believe that prices adjust slowly to new information. Therefore, the key is to exploit the slow adjustment to the correct new price when information is released.

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 grandfather of technical analysis?

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

Charles Dow, the originator of the Dow Theory, was the grandfather of technical analysis

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

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▶ **Fourth market**

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

Value investors are willing to wait.

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

In point and figure chart, what does X indicates?

- ▶ **Market price is going up [page 56]**
- ▶ Market price is going down
- ▶ Market price remains constant
- ▶ Market price is fluctuating

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

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 [page 55]**
- ▶ It show the highest degree of accuracy
- ▶ It can be used for comparing three values

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

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

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► Welles Wilder

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

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

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

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

Question No: 31 (Marks: 5)

A company is paying \$0.60 in dividends and the required rate of return is 6%. Company is selling the stocks at \$12. Assume 2% growth rate. Figure out the current value of the stock. By keeping in view your answer ,explain whether the stock is overvalued or undervalued.

Question No: 32 (Marks: 10)

Leverage ratios are used to measure a company's ability to meet its financial obligations. Describe the various leverage ratios used for analyzing financial statements.

MIDTERM EXAMINATION

Spring 2010

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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.

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▶ 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

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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**

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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

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- ▶ 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 maket
- ▶ 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

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- ▶ 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

Question No: 29 (Marks: 3)

Keeping in view the business cycle, describe which industries are least sensitive to changes in the economy? Give two examples.

Question No: 30 (Marks: 3)

Outline the rationale for sector rotation?

Question No: 31 (Marks: 5)

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Differentiate between income stocks and penny stocks.

Question No: 32 (Marks: 5)

For investment purposes:

- a) Common stock is considered a fixed income security
- b) Preferred stock is considered a fixed income security
- c) Both are considered fixed income securities
- d) Derivatives is considered fixed income securities

Arbitrage is the presence of a:

- a) Fixed profit
- b) Risky profit
- c) Riskless profit
- d) Maximizing profit

Arbitrage is the process of buying assets in one market and selling them in another to profit from unjustifiable price differences. "True" arbitrage is both riskless and self-financing, which means that the investor uses someone else's money.

Current yield is:

- a) Annual income divided by current price
- b) Current income divided by current price
- c) Annual income multiplied by current price
- d) Current income multiplied by current price

Compounding refers to the:

- a) Earning of interest on prospectively earned interest
- b) Earning of interest on previously earned interest
- c) Earning of interest on principal amount
- d) B and C

The economic function of the capital markets:

- a) Facilitating the inflow of capital from savers to borrowers
- b) Facilitating the flow of capital from borrowers to savers
- c) Facilitating the flow of capital from savers to borrowers
- d) None of the above

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The bond pricing relationship is customarily expressed in term of:

- a) Annual periods.
- b) Semiannual periods
- c) Quarterly periods.
- d) Monthly periods.

http://books.google.ae/books?id=fk-rYsLrekAC&pg=PA335&lpg=PA335&dq=%22The+bond+pricing+relationship+is+expressed+in+term+of+Annual+periods+%22&source=bl&ots=MPpEC0nx7A&sig=3wOb_W5aUhhzr1VEScMpmXa_TqU&hl=en&ei=hFzFTc_sCMSyAf83PjLBA&sa=X&oi=book_result&ct=result&resnum=6&ved=0CDQQ6AEwBQ#v=onepage&q&f=false

The higher the coupon on the bond:

- a) The lesser is its reinvestment rate risk.
- b) The higher is its reinvestment rate risk.
- c) The higher is its reinvestment rate of return.
- d) The lesser is its reinvestment rate of return.

At falling interest rate periods, the investor cannot reinvest at the same interest rates at which the earlier incomes were reinvested. In these situations, zero – coupon bonds are at an advantageous position as far as investors are concerned as the incomes are reinvested by the issuer. The higher the coupon on the bond, higher the reinvestment risk since the investors may go in for speculative investments.

Companies usually pay dividends

- a) Quarterly
- b) Semiannually
- c) Annually
- d) Monthly

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Companies usually pay dividends every quarter, or four times per year. When the company is about to pay a dividend, the company's board of directors makes a dividend announcement that indicates the amount of the dividend, the date of record, and the date of payment. The date of dividend announcement is known as the declaration date.

_____ usually expire within a few weeks of their issuance.

- a) Bonds
- b) Preferred stock
- c) Rights
- d) Derivatives

If an investor is looking for an investment opportunity that can yield profits in a shorter period, derivatives is a good option. Unlike some stocks and bonds which have to be invested for long periods many years, investments in derivatives can be for a few days, weeks, or a few months. This can provide an investor with the opportunity of breaking into the market and also mixing short and long-term investments.

Paying dividends reduces the amount in a firm's

- a) Reserves Account
- b) Checking Account
- c) Profit and loss Account
- d) Saving Account

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

- a. Pioneering stage
- b. Expansion stage
- c. Stabilization stage
- d. Decline stage

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2. Which of the following is NOT true about Expansion stage?
- a. Marketplace is full of competitors
 - b. Firm operations more stable, dependable
 - c. Financial policies firmly established
 - d. Dividends often become payable
3. Which of the following industry is NOT sensitive to business cycle and price changes?
- a. Growth industry
 - b. Cyclical industry
 - c. Defensive industry
 - d. Interest sensitive industry
4. Which of the following is EXCLUDED from Porter's competitive factors?
- a. Bargaining power of buyers
 - b. Rivalry between existing competitors
 - c. Substitute products or services
 - d. Changes in the economy [page 100]
5. Which of the following is NOT one of the components of ROA?
- a. Net income margin
 - b. Turnover
 - c. Leverage
 - d. Sales
6. All of the following are characteristics of Earnings per share EXCEPT?
- a. It is calculated by dividing Net income over number of shares outstanding
 - b. Earnings per share is a ratio, which is used for share price evaluation
 - c. Earnings per share relate income with ownership.
 - d. It is based on future forecasted data.
7. On which of the following financial statements would you expect to find assets,

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liabilities, and stockholders' equity?

- a. Balance sheet
- b. Income statement
- c. Statement of cash flows
- d. Statement of changes in equity

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

- a. Patent
- b. Timber
- c. Goodwill
- d. Trademark

[http://highereducation.mcgraw-](http://highereducation.mcgraw-hill.com/sites/0073526789/student_view0/chapter9/multiple_choice_quiz.html)

[hill.com/sites/0073526789/student_view0/chapter9/multiple_choice_quiz.html](http://highereducation.mcgraw-hill.com/sites/0073526789/student_view0/chapter9/multiple_choice_quiz.html)

9. On which of the following financial statements would you expect to find operating, investing, and financing activities?

- a. Balance sheet
- b. Income statement
- c. Statement of cash flows
- d. Statement of changes in equity

10. Mutual funds are _____ companies.

- a. Private
- b. Investment
- c. Insurance
- d. Banking

11. Money market mutual fund is:

- a. A closed-end investment company
- b. A unit investment company
- c. A directly investment in Treasury Bills
- d. An exchange traded fund

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As the name implies, money market mutual funds invest in near-money instruments like Treasury Bills, government securities and Commercial Paper

12. Brokerage fee charged by a stockbroker is an example of:

- a. Margin profit
- b. Insurance premium
- c. Transaction cost
- d. Capital expenditure

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

- a. Active strategy
- b. Passive strategy
- c. Buy-and-hold strategy
- d. All of the given options

An investment strategy involving ongoing buying and selling actions by the investor. Active investors purchase investments and continuously monitor their activity in order to exploit profitable conditions

14. A form of the EMH which states that security prices fully reflect all public and private information.

- a. Strong form efficiency [page 148]
- b. Weak form efficiency
- c. Semi strong form efficiency
- d. None of the given options

15. The computation of the Dow Jones Industrial Average is known as a _____ index.

- a. Price-weighted
- b. Market value
- c. Equal-weighted
- d. Volume weighted

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A popular price-weighted stock market index is the Dow Jones Industrial Average. It includes a price-weighted average of 30 actively traded blue chip stocks.

16. The duration of a bond:

- a. Is less than maturity for bonds paying coupon interest
- b. Is directly related to coupon yield
- c. Decreases with maturity
- d. Is greater than maturity for zero coupon bonds

<http://web.ku.edu/~finmhir/FIN410/EXAMS/htm/KEY921F.htm>

17. Which of the following pay a specified cash flow over a specific period?

- a. Fixed income Securities
- b. Junk bonds
- c. Zero coupon bonds
- d. Convertible bonds

18. Which of the following is defined as the rate of return anticipated on a bond if it is held until the maturity date?

- a. Discount rate
- b. Interest free rate
- c. Return on equity
- d. Yield to maturity

<http://www.investopedia.com/terms/y/yieldtomaturity.asp>

19. Which of the following measures the sensitivity of an asset's price to interest rate movements, expressed as a number of years?

- a. Duration
- b. Yield to maturity
- c. Convexity
- d. Immunization

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Duration is a measure of interest rate sensitivity, the longer the duration, the more sensitive the price of the bond to changes in interest rates.

20. Which of the following factor contributes to the price volatility of a bond?

- a. Maturity
- b. Coupon
- c. Yield to maturity
- d. All of the given options

Volatility: Duration depends on the maturity of the bond, the coupon rate, the price of the bond and its yield to maturity. Duration also expresses the Modern Commercial Banking reaction of the bond's price to changes in the interest rate. Changes in interest rate represent a major source of risk for bondholders.

1) The three broad categories of financial assets are _____.

- a) Money market securities, long-term debt and equity
- b) Corporate securities, derivatives and equity
- c) Debt, equity and derivatives
- d) All of the given options

http://highered.mcgraw-hill.com/sites/0073405175/student_view0/chapter1/multiple_choice_quiz.html

2) Which of the following is excluded from the fixed income securities?

- a) Bonds
- b) Preferred stock
- c) Saving deposits
- d) Options

3) Financial securities with a maturity of less than a year from their original issue date are sold in the:

- a) Money market
- b) Bond market

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- c) Equity market
- d) Derivative market

http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter3/quiz_2.html

4) The price at which a security dealer sells a security is known as:

- a) Bid price
- b) Offer price
- c) Market price
- d) Order price

5) Lahore stock exchange is a:

- a) Primary market
- b) Secondary market
- c) Third market
- d) Fourth market

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

- a) Primary market
- b) Secondary market
- c) Third market
- d) Fourth market

The trading of listed securities in the Nasdaq market is known as the third market.

Direct trades between large institutional investors comprise the fourth market.

7) _____ is a professionally managed firm of collective investments that collect money from many investors and invests in securities.

- a) Share
- b) Bond
- c) Treasury bill
- d) Mutual fund

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8) Which type of order is often used by investors who have bought a security and want to protect themselves from a falling price?

- a) Market order
- b) Limit order
- c) Stop order
- d) Good-till-canceled order

9) The percentage of the purchase price of securities that the investor must pay with his or her own cash or marginable securities is known as:

- a) Initial margin
- b) Margin call
- c) Maintenance margin
- d) SPAN margin

10) Which of the following represents low-priced, speculative and risky securities?

- a) Income stocks
- b) Penny stocks
- c) Defensive stocks
- d) cyclical stocks

Penny stocks are low-priced, speculative and risky securities which are traded over-the-counter (OTC); i.e. outside of one of the major exchanges.

1) The sensitivity of a coupon bond price to a change in its yield:

- a) Is directly related to the bond's yield to maturity
- b) Is inversely related to the bond's yield to maturity
- c) Is greater for increases in yield to maturity than it is for decreases in yield to maturity
- d) Is constant regardless of whether the yield to maturity increases or decreases

[http://higherred.mcgraw-](http://higherred.mcgraw-hill.com/sites/007338240x/student_view0/chapter11/multiple_choice_quiz.html)

[hill.com/sites/007338240x/student_view0/chapter11/multiple_choice_quiz.html](http://higherred.mcgraw-hill.com/sites/007338240x/student_view0/chapter11/multiple_choice_quiz.html)

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2) The rate of return anticipated on a bond if it is held until the maturity date is known as:

- a) Discount rate
- b) Interest free rate
- c) Return on equity
- d) Yield to maturity

3) The possibility that a bond issuer will be unable to make interest or principal payments when they are due is known as:

- a) Reinvestment risk
- b) Default risk
- c) Interest rate risk
- d) Liquidity risk

4) Nominal interest rate is the function of real rate of interest and ____.

- a) Expected inflation premium
- b) Risk-free rate of return
- c) Required risk premium
- d) Compensation for the actual rate of inflation

Nominal interest rates have two components: a real rate of return (the real interest rate, r) and compensation for expected inflation (π_e).²

5) Bond prices are expressed as a percentage of:

- a) Discount value
- b) Par value
- c) Future value
- d) Intrinsic value

6) Which of the following is TRUE regarding bond duration?

- a) Duration is directly related to coupon yield
- b) Duration decreases with maturity
- c) Duration is greater than maturity for zero coupon bonds

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d) Duration is shorter than maturity for all bonds except zero coupon bonds

7) Which of the following measures deviation of a bond's price-yield curve from a straight line?

- a) Bond duration
- b) Bond convexity
- c) Bond valuation
- d) All of the given options

Convexity is a measure of how much a bond's price-yield curve deviates from the linear approximation of that curve

9) Which of the following bonds have the lowest ratings?

- a) Convertible bonds
- b) Junk bonds
- c) Municipal bonds
- d) Government bonds

Except for bonds that are already in default, junk bonds have the lowest ratings, usually Caa or CCC, assigned by rating services such as Moody's Investors Service and Standard & Poor's (S&P).

10) Which of the following equation is FALSE?

- a) Total risk = general risk + specific risk
- b) Total risk = market risk + issuer risk
- c) Total risk = systematic risk + nonsystematic risk
- d) Total risk = un-diversified risk + equity risk [page 197]

11) Bond horizon premium is the difference between:

- a) Long- and short-term government securities
- b) Stock and risk-free returns
- c) Equity and short-term government securities

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d) None of the given options

Bond horizon premium is the difference between long- and short-term government securities

12) Which of the following measures the compound growth rate over time?

- a) Geometric mean
- b) Standard deviation
- c) Arithmetic mean
- d) Correlation coefficient

13) Which of the following is an asset pricing model commonly used in the finance industry to measure risk and return of a stock?

- a) Single Index Model
- b) Capital Asset Pricing Model
- c) Binomial Options Pricing Model
- d) Dividend Discount Model

14) Which of the following statement is TRUE regarding efficient frontier?

- a) It is an upward sloping curved line
- b) It is a downward sloping curved line
- c) It is an upward sloping straight line
- d) It is a downward sloping straight line

15) What is another name for optimal portfolio?

- a) Business portfolio
- b) Market portfolio
- c) Mutual fund portfolio
- d) Systematic portfolio

A portfolio which holds assets in the same proportions as they are held in the market is called a **market portfolio**. The implication of the CAPM model is that the Market portfolio is the optimal portfolio.

17) When Beta < 1.0, what does it indicates?

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- a) Security is more risky than the market
- b) Security is less risky than the market
- c) Security is as risky as the market
- d) Security is not risky at all

18) The concept that two identical assets cannot be sold at different prices is associated with which of the following theory?

- a) Prospect Theory
- b) Modern Portfolio Theory
- c) Dow Theory
- d) Arbitrage Pricing Theory

it is based on the law of one price: two identical assets cannot sell at different prices. It states that the market price (which reflects the associated risk factors) of an asset represents the value that prevents an investor from exploiting it to make a risk-free profit.

19) Which of the following is the only way to protect investors from nonsystematic risk?

- a) Sector rotation
- b) Securitization
- c) Diversification
- d) Risk aversion

20) Total risk of a security is calculated as:

- a) $TR = CF_t + (PE - PB) / PB$
- b) $TR = (1 + IF) + (PE - PB) / PB$
- c) $TRIA = (1 + TR) - 1 / (1 + IF)$
- d) $TR = CF_t / (PE - PB) + PB$

1) The most economic function of stock exchange is to:

- a) Safeguard the interest of investors
- b) Help in the capital formation in the country
- c) Provides facilities for speculation

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d) Provide a ready market for old securities

2) People with a high discount rate will require:

- a) A higher interest rate to entice them to save
- b) Investment options with longer maturities
- c) A lower interest rate to entice them to save
- d) A constant ROI

http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter4/quiz_1.html

3) The dividend-discount model indicates that the current market price of a stock rises if:

- a) The interest rate rises
- b) The growth rate of dividends rises
- c) The current dividend is higher
- d) All of the above are correct

http://highered.mcgraw-hill.com/sites/0073523097/student_view0/chapter8/quiz_1.html

4) The efficient market hypothesis suggests that _____.

- a) No investors can earn excess returns persistently over time
- b) No investors can earn positive returns persistently over time
- c) No investors can earn excess returns at any point in time
- d) No investors can earn positive returns at any point in time

[http://docs.google.com/viewer?a=v&q=cache:pDhQCVTmxakJ:faculty.etsu.edu/trainor/FNCE%25203300/BKME5ch12.ppt+%22The+efficient+market+hypothesis+suggests+that+No+investors+can+earn+excess+returns+persistently+over+time%22&hl=en&pid=bl&srcid=ADGEEESgUWmXSv0-](http://docs.google.com/viewer?a=v&q=cache:pDhQCVTmxakJ:faculty.etsu.edu/trainor/FNCE%25203300/BKME5ch12.ppt+%22The+efficient+market+hypothesis+suggests+that+No+investors+can+earn+excess+returns+persistently+over+time%22&hl=en&pid=bl&srcid=ADGEEESgUWmXSv0-OTATERNdgTEXTm7we8p5zphnKdFrWRj5UPMoSPJ5C3S2BCg76SxjXAsWdvaEi2PxCFtkWgQ0b-HWmAZCeeZ8UhPhcPsM5Nxi0jBCWXN1kB1ViL6LLGWWIyTQSDvwiU&sig=AHIEtbQ83xKxV3ThEpy8Lt1xPmPr_e20Qg&pli=1)

[OTATERNdgTEXTm7we8p5zphnKdFrWRj5UPMoSPJ5C3S2BCg76SxjXAsWdvaEi2PxCFtkWgQ0b-](http://docs.google.com/viewer?a=v&q=cache:pDhQCVTmxakJ:faculty.etsu.edu/trainor/FNCE%25203300/BKME5ch12.ppt+%22The+efficient+market+hypothesis+suggests+that+No+investors+can+earn+excess+returns+persistently+over+time%22&hl=en&pid=bl&srcid=ADGEEESgUWmXSv0-OTATERNdgTEXTm7we8p5zphnKdFrWRj5UPMoSPJ5C3S2BCg76SxjXAsWdvaEi2PxCFtkWgQ0b-)

[HWmAZCeeZ8UhPhcPsM5Nxi0jBCWXN1kB1ViL6LLGWWIyTQSDvwiU&sig=AHIEtbQ83xKxV3ThEpy8Lt1xPmPr_e20Qg&pli=1](http://docs.google.com/viewer?a=v&q=cache:pDhQCVTmxakJ:faculty.etsu.edu/trainor/FNCE%25203300/BKME5ch12.ppt+%22The+efficient+market+hypothesis+suggests+that+No+investors+can+earn+excess+returns+persistently+over+time%22&hl=en&pid=bl&srcid=ADGEEESgUWmXSv0-OTATERNdgTEXTm7we8p5zphnKdFrWRj5UPMoSPJ5C3S2BCg76SxjXAsWdvaEi2PxCFtkWgQ0b-HWmAZCeeZ8UhPhcPsM5Nxi0jBCWXN1kB1ViL6LLGWWIyTQSDvwiU&sig=AHIEtbQ83xKxV3ThEpy8Lt1xPmPr_e20Qg&pli=1)

5) _____ is a measure of the volatility of stock prices or returns.

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a) ROR

b) Beta

c) ROI

d) Risk premium

6) _____ is a basket of stocks that tracks a particular sector, investment style, geographical area, or the market as a whole.

a) Exchange traded fund

b) Open-end fund

c) Closed-end fund

d) Unit investment trust

7) The total market value of securities in an investment company's portfolio divided by the number of investing company fund shares currently out standing is known as _____.

a) Discounted value

b) Present value

c) Future cash flow value

d) Net asset value

8) Financial assets:

a) Contribute to the country's productive capacity both directly and indirectly

b) Do not contribute to the country's productive capacity either directly or indirectly

c) Directly contribute to the country's productive capacity

d) Indirectly contribute to the country's productive capacity

[http://highered.mcgraw-](http://highered.mcgraw-hill.com/sites/007338237x/student_view0/chapter1/multiple_choice_quiz.html)

[hill.com/sites/007338237x/student_view0/chapter1/multiple_choice_quiz.html](http://highered.mcgraw-hill.com/sites/007338237x/student_view0/chapter1/multiple_choice_quiz.html)

9) The primary purpose of the liquidity ratios is to determine:

a) How much working capital is tied up in inventory

b) The relative level of short-term debt

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- c) How well a firm is able to pay off short-term obligations
- d) All of the given options

10) The intrinsic value of a stock is the _____ of future net cash flows.

- a) Sum value
- b) Present value
- c) Investment value
- d) Future value

The intrinsic value of a stock is the present value of all future cash flows, and it is a calculation that has been used in financial circles since the first dividend discount model was introduced in 1938.

Which one of following statement is TRUE if intrinsic value of a security is higher than its current market price?

- The security is being undervalued
- The security is being overvalued
- The security is correctly valued
- None of given options

Stock is under- (over-) valued if intrinsic value is larger (smaller) than current market price

2.

Which one of the following is correct formula for calculating gross margin?

- Net Profit/Net Sales
- Gross Profit/Net Sales
- Net income/Net Sales
- Gross Profit/credit Sales

3.

Which of the following is defined as a procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value?

- Dividend Discount Model
- Relative Strength Index

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- On Balance Volume
- Bollinger bands

4.

Which one of the following is correct formula for calculating operating margin?

- Net Profit/Net Sales
- **Operating income/Net Sales**
- Net income/Net Sales
- Operating income/credit sales

5.

Which of the following ratios are of more concern for the shareholders?

- Liquidity and profitability
- Profitability and leverage
- Liquidity and leverage
- **Profitability and activity**

6.

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

- **Price-Earnings Ratio**
- Net margin
- Return on equity
- Return on Investment

7.

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

- Growth industry
- Defensive industry
- **Cyclical industry**
- Interest sensitive industry

8.

Which of the following is defined as a stock whose price tends to move in the opposite

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direction from that of interest rates?

- Defensive stock
- Interest sensitive stock
- Growth stock
- Value stock

9.

Which of the following is EXCLUDED from Porter's competitive factors?

- Changes in the economy
- Bargaining power of buyers
- Rivalry between existing competitors
- Substitute products or services

10.

What does Return on Assets (ROA) show the analyst?

- The accounting rate of return that stockholders earn on their portion of the total capital
- The ability of the company to use its assets to produce profits
- The riskiness of the company
- Book value per share

11.

Balance sheet shows the:

- Balances of all accounts
- Net profit earned during a period
- Financial position of business
- Expense of a business

12.

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

- Timber
- Patent
- Goodwill
- Trademark

13.

On which of the following financial statements would you expect to find revenues

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and expenses?

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

14.

Cash flow statement comprises of which of the following activities?

- Operating activities only
- Operating, investing, and financing activities
- Investing and operating activities
- Operating and financing activities

15.

When inflation and interest rates are high, P/E ratios tend to be.

- High
- Low
- Minimum
- Average

. When inflation levels are stable and moderate, investors have lower expectations of high market returns. Conversely, expectations rise when inflation is high. When inflation rises, so do prices in the economy, leading investors to require a higher rate of return to maintain their purchasing power. If investors demand a higher rate of return, the P/E ratio has to fall. Historically, the lower the P/E, the higher the return. When you pay a lower P/E, you're paying less for more earnings and, as earnings grow, the return you achieve is higher. In periods of low inflation, the return demanded by investors is lower and the P/E higher. The higher the P/E, the higher the price for earnings, which lowers your expectations of healthy returns.

16.

When PE multiples are high, future returns are:

- Low
- High
- Minimum
- Average

PE multiples tend to be high when inflation is low But when PE multiples are high *future* returns are low

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17.

Which of the following is NOT true about expansion stage?

- Marketplace is full of competitors
- Firm operations more stable, dependable
- Financial policies firmly established
- Dividends often become payable

18.

In bottom-up approach of fundamental analysis, investors begin their analysis with:

- Industry
- Company
- Economy
- Market

The Fund's investment adviser uses a "bottom-up" approach of fundamental analysis to look for individual companies that the adviser believes offer significant potential for stock price appreciation.

19.

Which of the following stage offers the highest potential returns and greatest risk?

- Pioneering stage
- Expansion stage
- Stabilization stage
- Decline stage

The pioneering stage may offer the highest potential returns, but it also poses the greatest risk. Investors interested primarily in capital gains should avoid the maturity stage.

20.

Which of the following estimates are needed while applying fundamental analysis to the market?

- Stream of shareholder benefits
- Earnings and dividends
- Required return or earnings multiple

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- All of given options
 - n To apply fundamental analysis to the market, estimates are needed of
 - Stream of shareholder benefits
 - » Earnings or dividends
 - Required return or earnings multiple
 - n Steps in estimating earnings stream
 - Estimate GDP, corporate sales, corporate earnings before taxes, and finally corporate earnings after taxes

1.

Primary Trend in Dow theory is called as

- Tide
- Wave
- Oscillation
- None of the given options

2.

A trend that defines the long-term direction for a security is called as:

- Primary Trend
- Secondary trend
- Tertiary trend
- All of the given options

3.

A trend that defines the short-term direction for a security is called as:

- Primary Trend
- Secondary trend
- Tertiary trend
- All of the given options

4.

Secondary trend in Dow theory is known as

- Tide
- Wave
- Oscillation
- None of the given options

5.

Which of the following charting price pattern depicts a significant expectation of an increase in demand for a security

- Support
- Resistance
- Trend line

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- All of given options

6.

_____ believes that securities are priced according to fundamental economic data.

- Fundamental analysts
- Ratio analysts
- Technical analysts
- Research analysts

7.

When a stock's market price breaks through its moving average line from below, a technical analyst would suggest a _____ signal.

- Buy
- Sell
- Hold
- Wait and see

8.

Which of the following statement is TRUE about return or gains in a stock exchange?

- Slow or steady returns are long lasting
- Slow or steady returns are short lived
- Quick returns are long lasting
- All of the given options are true

9.

Which of the following statement is TRUE about quick returns?

- They are long lasting
- They are usually short lived
- Quick returns are long lasting
- All of the given options are true

10.

When the stock price drops below the support level, it indicates a _____ signal.

- Bearish
- Bullish
- Neither a bearish nor bullish
- Leading

In technical analysis, a situation in which the price of a security falls below a support level. The support level is a price below which a security only rarely drops. This is a highly bearish signal because it indicates the price likely will continue to fall until it finds another support level.

11.

Which of the following is the reason stock prices behave the way they do at resistance lines?

- Many investors want to buy at this price

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- Market makers resist moving prices lower than this price
- Many investors want to sell at this price
- Market makers support prices at this level

When stock prices rise to level where demand decrease and owners began to lock in their profit, this creates the "ceiling" or resistance level

12.

Which of the following statement is not a characteristic of a line chart?

- It is simplest and most familiar chart
- It is efficient in showing more details
- It is an extension of a scatter graph
- It is created by connecting a series of points.

13.

Black body candle in a candlestick chart depicts that the prices are moving.

- Up
- Down
- Constant
- Fluctuating

14.

An upward trend in share prices in a bar chart is represented by _____ color.

- Black
- Red
- White
- Blue

Downward trend is represented by red

15.

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

- Horizontal analysis
- Fundamental analysis
- Ratio analysis
- Technical Analysis

16.

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

- Total shares sold short / Total daily trading volume
- Average shares sold short / Average daily trading volume
- Total shares sold short / Average daily trading volume [page 72]
- None of given options

17.

Financial assets are divided in to which of the following three broad categories?

- Money market securities, long-term debt and equity
- Corporate securities, derivatives and equity
- Debt, equity and derivatives
- All of the given options

18.

Which of the following deals with the issuance of new securities?

- Primary market
- Secondary market
- Third market
- Fourth market

19.

Which of the following are regarded as low-priced, speculative and risky securities?

- Income stocks
- Penny stocks
- Defensive stocks
- Cyclical stocks

Question # 1 of 15 (Start time: 10:09:12 AM) Total Marks: 1

Companies that have capitalization amounts of more than \$2 billion are known as

_____.

Select correct option:

Small cap companies

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Mid cap companies

Growth companies

Large cap companies (correct)

Question # 2 of 15 (Start time: 10:10:08 AM) Total Marks: 1

An investor wants to buy 100 shares of a company but due to shortage of funds investor can only 30% of the total share price and will borrow rest of 70% from brokerage firm.

Which of the following type of account will be suitable for investor in this situation?

Select correct option:

Cash account

Margin account

Real account

CFA account(correct)

Question # 3 of 15 (Start time: 10:10:49 AM) Total Marks: 1

Which of the following stages of the industry life cycle offers the highest potential returns and greatest risk?

Select correct option:

Pioneering stage (correct)

Stabilization stage

Declining stage

Expansion stage

Question # 4 of 15 (Start time: 10:11:31 AM) Total Marks: 1

Which of the following trading systems is used by the Islamabad Stock Exchange?

Select correct option:

LOTS

PETS

ISECTS (correct)

KATS

Question # 5 of 15 (Start time: 10:11:46 AM) Total Marks: 1

Which of the following take place at the stabilization stage of the industry life cycle?

Select correct option:

Firm operations get more stable and dependable

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Rapid growth in demand and subsequent profits occur

Costs get stable rather than decreasing (correct)

Sales growth decline as new products are developed

Question # 6 of 15 (Start time: 10:12:28 AM) Total Marks: 1

Which of the following statements highlights the financial condition of a company at any single point of time?

Select correct option:

Income Statement

Cash Flow Statement

Balance Sheet (correct)

Statement of Owner's Equity

Question # 7 of 15 (Start time: 10:13:38 AM) Total Marks: 1

Buying power of an investor is calculated as:

Select correct option:

Assets – liabilities

Equity – debt balance (correct)

Short term debt – long tem debt

Current assets – current liabilities

Question # 8 of 15 (Start time: 10:14:46 AM) Total Marks: 1

Which of the following is correct formula for calculating P/E ratio?

Select correct option:

Face value per share / Earnings per Share

Market value per share / Total Earnings

Market value per share / Earnings per Share (correct)

None of given options

Question # 9 of 15 (Start time: 10:15:12 AM) Total Marks: 1

Company ABC has used 20% of its profits for paying out dividends to its shareholders, the remaining 80% income will be known as:

Select correct option:

Gross income

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Distributed income

Retained earning(correct)

Net income

Question # 10 of 15 (Start time: 10:15:37 AM) Total Marks: 1

Which of the following markets is the market for investment in short-term activities?

Select correct option:

Android market

Capital market

Money market (correct)

Target market

Question # 11 of 15 (Start time: 10:16:04 AM) Total Marks: 1

Which of the following is the point of difference between cash flow statement and income statement?

Select correct option:

Cash items

Non-cash items (correct)

Purchases

All of the given options

Question # 12 of 15 (Start time: 10:17:31 AM) Total Marks: 1

Which of the following statements hold TRUE for Fibonacci series?

Select correct option:

It is an eight part series that left an indelible mark in developing strategy

It is a sequence of numbers where each successive number is the sum of the two previous numbers (correct)

It is a sequence of numerical data points in successive order occurring in uniform intervals

It is a series for which the ratio of each two consecutive terms is a constant function

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Question # 13 of 15 (Start time: 10:17:59 AM) Total Marks: 1

Which one of following statement is true if intrinsic value of a security is higher then its current market price?

Select correct option:

The security is being undervalued (correct)

The security is being overvalued

The security is correctly valued

None of given options

Question # 14 of 15 (Start time: 10:18:30 AM) Total Marks: 1

Leverage ratios are designed to:

Select correct option:

Measure a company's capital structure (correct)

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

Question # 15 of 15 (Start time: 10:18:53 AM) Total Marks: 1

Which of the following statements also takes into account some non-cash accounting items such as depreciation?

Select correct option:

Income Statement (correct)

Cash Flow Statement

Notes to the accounts

Statement of Owner's Equity

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