

C 20738

(Pages : 2)

Name.....

Reg. No.....

SIXTH SEMESTER U.G. DEGREE EXAMINATION, MARCH 2022

(CBCSS—UG)

Economics

ECO 6B 11—FINANCIAL ECONOMICS

(2019 Admissions)

Time : Two Hours and a Half

Maximum : 80 Marks

Section A (Short Answer Questions)*Answer at least **ten** questions.**Each question carries 3 marks.**All questions can be attended.**Overall Ceiling 30.*

- | | |
|-----------------------------|---------------------------|
| 1. Security market line. | 2. Derivatives market. |
| 3. Dividend. | 4. Equity valuation. |
| 5. Put-call parity theorem. | 6. Angel investors. |
| 7. Primary market. | 8. Gilt-edged securities. |
| 9. Stock exchanges. | 10. Cost of capital. |
| 11. Financial derivatives. | 12. Financial Economics. |
| 13. Hedging. | 14. Options. |
| 15. Asset portfolio. | |

(10 × 3 = 30 marks)

Section B (Short Essay/Paragraph Questions)*Answer at least **five** questions.**Each question carries 6 marks.**All questions can be attended.**Overall Ceiling 30.*

16. Explain dividend discount model.
17. Elucidate various methods of measuring risk.
18. What are the uses of derivatives ?

Turn over

19. Differentiate between forward contracts and future contracts.
20. Explain the top-down approach of investment valuation.
21. Explain the trade-off between risk and return.
22. Explain various methods for valuation of securities.
23. Explain binomial option pricing model. Point out major advantage of a binomial option pricing model.

(5 × 6 = 30 marks)

Section C (Long Essay Questions)

*Answer any **two** questions.
Each question carries 10 marks.*

24. Define investment criteria. Explain various criteria of investment.
25. Critically analyze Modigliani-miller hypothesis.
26. What do you mean by financial derivatives ? Discuss various types of financial derivatives.
27. Explain the capital asset pricing model. Discuss the uses of the CAPM model in investment analysis.

(2 × 10 = 20 marks)

C 20738-A

(Pages : 4)

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SIXTH SEMESTER U.G. DEGREE EXAMINATION, MARCH 2022

Economics

ECO 6B 11—FINANCIAL ECONOMICS

(2019 Admissions)

(Multiple Choice Questions for SDE Candidates)

Time : 15 Minutes**Total No. of Questions : 20****Maximum : 20 Marks****INSTRUCTIONS TO THE CANDIDATE**

1. This Question Paper carries Multiple Choice Questions from 1 to 20.
2. The candidate should check that the question paper supplied to him/her contains all the 20 questions in serial order.
3. Each question is provided with choices (A), (B), (C), (D) and (E) having one correct answer. Choose the correct answer and enter it in the main answer-book.
4. The MCQ question paper will be supplied after the completion of the descriptive examination.

ECO 6B 11—FINANCIAL ECONOMICS
(Multiple Choice Questions for SDE Candidates)

1. Money has time value because :
 - (A) Individuals prefer future consumption to present consumption.
 - (B) Money today is more certain than money tomorrow.
 - (C) Money today is worth more than money tomorrow in terms of purchasing power.
 - (D) There is a possibility of earning risk free return on money invested today.
2. What is the most important use of the P/E ratio for investors ?
 - (A) It helps investors decide how much profit a company is likely to make in future.
 - (B) It helps investors decide whether a company's shares are overpriced or underpriced.
 - (C) It helps investors decide on the most appropriate risk to reward ratio.
 - (D) None of the above.
 - (E) (B), (C) and (D) above.
3. High P/E ratios tend to indicate that a company will _____.
 - (A) Grow quickly.
 - (B) Grow at the same speed as the average company.
 - (C) Grow slowly.
 - (D) Not grow.
4. A bond is said to be issued at premium when :
 - (A) Coupon rate > Required returns.
 - (B) Coupon rate = Required returns.
 - (C) Coupon rate.
 - (D) None of the above.
5. Which of the following is equal to the present value of all cash proceeds received by a stock investor ?
 - (A) Discount rate.
 - (B) Dividend payout ratio.
 - (C) Retention ratio.
 - (D) Value.
6. A line that describes the relationship between an individual security's returns and returns on the market portfolio :
 - (A) Characteristic line.
 - (B) Security market line.
 - (C) Capital market line.
 - (D) Beta.

7. Which of the following is not a financial derivative ?
- (A) Stock. (B) Futures.
(C) Options. (D) Forward contracts.
8. A contract that requires the investor to buy securities on a future date is called a :
- (A) Short contract. (B) Long contract.
(C) Hedge. (D) Cross.
9. The price specified on an option that the holder can buy or sell the underlying asset is called :
- (A) Premium. (B) Call.
(C) Strike price. (D) None of the above.
10. An option that gives the owner the right to buy a financial instrument at the exercise price within a specified period of time is a :
- (A) Call option. (B) Put option.
(C) American option. (D) European option.
11. In Binomial approach of option pricing model, the value of stock is subtracted from call option obligation value to calculate :
- (A) Current value of portfolio. (B) Future value of portfolio.
(C) Put option value. (D) Call option value.
12. Minimum rate of return that a firm must earn in order to satisfy its investors, is also known as :
- (A) Average return on investment. (B) Weighted average cost of capital.
(C) Net profit ratio. (D) Average cost of borrowing.
13. Interest on government bonds is also known as :
- (A) Beta of the stock. (B) Market rate of return.
(C) Market price of equity share. (D) Risk free rate of interest.
14. Cost of equity share capital is more than cost of debt because :
- (A) Equity shares are highly liquid.
(B) Equity shares have higher risk than debt.
(C) Market price of equity is highly volatile.
(D) Face value of equity is less than debentures.

Turn over

15. A portfolio having two risky securities can be turned risk less if :
- (A) The securities are completely positively correlated.
 - (B) If the correlation ranges between zero and one.
 - (C) The securities are completely negatively correlated.
 - (D) None of the above.
16. The _____ is an effort to achieve a balance between the desire for the lowest possible risk and the highest possible return.
- (A) Group.
 - (B) Investment.
 - (C) Risk return trade off.
 - (D) Securities.
17. _____ is a technique of reducing the risk involved in a portfolio.
- (A) Beta.
 - (B) Variance.
 - (C) Range.
 - (D) Diversification.
18. Capital Market Line (CML) is the _____ line drawn from the point of the risk-free asset to the feasible region for risky assets.
- (A) Non-tangent.
 - (B) Opposite.
 - (C) Adjacent.
 - (D) Tangent.
19. The Security Market Line has a _____ slope, indicating that the expected return increases with risk (B).
- (A) Negative.
 - (B) Positive.
 - (C) Zero.
 - (D) Beta.
20. Which one of the following is the procedure of finding out the Present Value (PV) ?
- (A) Discounting.
 - (B) Compounding.
 - (C) Time value of money.
 - (D) All of above.