

FOURTH SEMESTER P.G. DEGREE EXAMINATION, APRIL 2021

(CCSS)

M.A. Financial Economics

FEC 4E 19—CORPORATE FINANCE AND CAPITAL BUDGETING

(2018 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A*Answer all questions.**All questions carry equal marks.*

1. The primary purpose of the statement of cash flows is to :
 - (a) Provide information about the investing and financing activities during a period.
 - (b) Prove that revenues exceed expenses if there is a net income.
 - (c) Provide information about cash payments during a period.
 - (d) Facilitate banking relationships.
2. Future value interest factor takes _____ rate :
 - (a) Discounting.
 - (b) Inflation.
 - (c) Compounding.
 - (d) Deflation.
3. Common efficiency ratios do not include :
 - (a) Asset turnover ratio.
 - (b) Fixed asset turnover ratio.
 - (c) Cash conversion ratio.
 - (d) Current ratio.
4. Debt security includes :
 - (a) Commercial paper.
 - (b) Corporate bonds.
 - (c) Municipal bonds.
 - (d) All the above.
5. Choose the correct statement :
 - (a) ABC analysis is one of the important inventory control techniques.
 - (b) ABC analysis is an analytical technique that tries to group materials into three categories on the basis of cost involved.
 - (c) Both A and B are correct.
 - (d) Both A and B are incorrect.

Turn over

6. Net working capital refers to :
- (a) Total assets minus fixed assets.
 - (b) Current assets.
 - (c) Current assets minus current liabilities.
 - (d) Current assets minus inventories.
7. The net present value will be negative if :
- (a) Cash flows are more than the capital invested for the return.
 - (b) Cash flows are less than the capital invested for the return.
 - (c) Cash flows are equal to the capital invested for the return.
 - (d) None of these.
8. Economic Order Quantity represents that level of inventory which :
- (a) Minimizes the total inventory cost.
 - (b) Maximizes the total inventory cost.
 - (c) Maximizes the level of stock.
 - (d) Minimizes carrying cost per unit per year.
9. Methods of venture capital financing covers :
- (a) Equity.
 - (b) Participating debentures.
 - (c) Conditional loan.
 - (d) All the above.
10. _____ type is promissory notes to pay the shareholders of the company at a later date :
- (a) Cash dividend.
 - (b) Stock dividend.
 - (c) Scrip dividend.
 - (d) Property dividend.

(10 × 1= 10 marks)

Part B

*Answer any five questions.
Each question carries 2 marks.*

11. Define corporate finance.
12. What is scenario analysis ?

13. Define financial economics.
14. What is meant by delinquency cost ?
15. What is meant by auction ?
16. Define financial leverage.
17. What is meant by collection cost ?
18. Prepare a note on junk bonds.

(5 × 2 = 10 marks)

Part C

*Answer any eight questions.
Each question carries 5 marks.*

19. What are the factors determining capital structure ?
20. Explain the advantages of scenario analysis. What are the possible scenarios ?
21. Explain dividend policy and dividend payout ratio.
22. Explain the budgeting problems most companies face in fiscal planning.
23. Distinguish between bond and debenture using suitable examples.
24. Why corporate governance is important ?
25. Explain equity capital and debt capital.
26. Discuss inventory control techniques.
27. Examine ABC Analysis.
28. What is share valuation ? Discuss the most popular methods of share valuation.
29. Discuss the criteria that can be useful for risk management.
30. Prepare a note on initial public offering.

(8 × 5 = 40 marks)

Part D

Answer any two questions.

Each question carries 10 marks.

31. What is working capital management ? Discuss the meaning and objectives of receivable management.
32. Discuss the meaning and techniques of capital budgeting.
33. Explain the significance of venture capital. Point out major features of venture capital investments.
34. Explain the major responsibilities of a finance manager.

(2 × 10 = 20 marks)

FOURTH SEMESTER P.G. DEGREE EXAMINATION, APRIL 2021

(CCSS)

M.A. Financial Economics

FEC 4E 16—FINANCIAL ENGINEERING AND STRUCTURED FINANCE

(2018 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A

*Answer all questions.
All questions carry equal marks.*

1. Currency forwards are also known as :
 - (a) Outright forwards.
 - (b) Over the counter products.
 - (c) Interest rate swaps.
 - (d) Currency swaps.
2. Which among the following is/are correct statement/s related to swaptions ?
 - (a) Swaption is a combination of a regular swap and an option.
 - (b) Parties usually agree on a swaption when there are uncertainties about the price movements in the future.
 - (c) Swaption gives a holder the right to enter a swap with another party at a given time in the future.
 - (d) All the above.
3. The yield curve shows :
 - (a) Relationship between bond price and interest rates.
 - (b) Relationship between bond price and share market index.
 - (c) Relationship between interest rates and bond yields of various maturities.
 - (d) Relationship between interest rates and sales volume of various maturities.
4. Which among the following is not a feature of forward?
 - (a) Traded over-the-counter.
 - (b) Position usually held until maturity.
 - (c) Daily margin calls occur.
 - (d) Highly customizable.

Turn over

5. Identify the wrong conclusion related to conversion value :
- (a) The conversion price is usually set at a price higher than the stock's current price.
 - (b) If the conversion price is closer to the market price, then it has a lower call value
 - (c) The conversion value is similar to the value of the call option on the common stock
 - (d) The conversion price is the preset price at which the security can be converted into common stock
6. Identify an important feature/s of equity swaps :
- (a) Convenience.
 - (b) Leverage.
 - (c) Can be customized.
 - (d) All the above.
7. The amount paid for an option is called :
- (a) Premium.
 - (b) Discount rate.
 - (c) Yield.
 - (d) Strike price.
8. Funded credit derivatives does not include :
- (a) Constant proportion debt obligation.
 - (b) Credit return swap.
 - (c) Credit linked note.
 - (d) Collecteralized debt obligation.
9. Backwardation is characterized by a situation where :
- (a) The current price of an underlying asset is lower than prices trading in the futures market.
 - (b) The current price of an underlying asset is higher than prices trading in the futures market.
 - (c) The current price of an underlying asset is equal to prices trading in the futures market.
 - (d) None of these.
10. _____ is a form of derivative contracts :
- (a) Forwards.
 - (b) Futures.
 - (c) Options.
 - (d) All the above.

(10 × 1 = 10 marks)

Part B

*Answer any five questions.
Each question carries 2 marks.*

11. Define volatility.
12. What is financial derivative ?
13. What do you mean by hedging ?
14. Define currency option
15. What is commodity swap ?
16. What is an index linked note ?
17. Prepare a note on warrants.
18. What is interest rate swap ?

(5 × 2 = 10 marks)

Part C

*Answer any eight questions.
Each question carries 5 marks.*

19. What is an equity capital market ? Distinguish between primary equity markets and secondary equity markets.
20. Explain swap spread. How they are used as economic indicators.
21. What are the different types of hedging ?
22. Explain credit default swap.
23. What is a yield curve? Explain different types of yield curves.
24. Explain credit-linked notes.
25. Differentiate between call options and put options.
26. Discuss the benefits of derivatives.
27. What are the various types of costs associated with trading in commodity derivatives market ?
28. Prepare a note on unfunded credit derivatives.
29. What are the significant derivative instruments ?
30. Prepare a note on energy derivative.

(8 × 5 = 40 marks)

Turn over

Part D

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

31. What is an equity-linked note ? Discuss the features and advantages of equity-linked note.
32. What do you mean by derivatives ? Examine the types and functions of derivatives.
33. Discuss the methods of valuing derivative instruments.
34. What is commodity derivatives market ? Explain the meaning and nature of commodity linked note.

(2 × 10 = 20 marks)