

FOURTH SEMESTER P.G. DEGREE EXAMINATION, APRIL 2021

(CCSS)

M.A. Financial Economics

FEC 4E 08—ECONOMICS OF BANKING AND INSURANCE

(2019 Admissions)

Time : Three Hours

Maximum : 80 Marks

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

1. Consider the statements related to BPLR :

Statement I : Benchmark Prime Lending Rate (BPLR) is the rate at which commercial banks charge their customers who are most credit worthy.

Statement II : According to the Reserve Bank of India (RBI), banks can fix the BPLR with the approval of their Board.

- A) Statement I alone is correct. B) Statement II alone is correct.
C) Statement I and II are correct. D) Statement I and II are incorrect.

2. General insurance does not cover :

- A) Fire insurance. B) Marine insurance.
C) Life insurance. D) Travel insurance.

3. Insurance helps to :

- A) Prevent adverse situations from occurring
B) Reduce the financial consequences of adverse situations
C) Negate all consequences of adverse situations
D) Make assets continuously productive

4. General Insurance Business (Nationalization) Act was passed in :

- A) 1938 B) 1972
C) 1986 D) 1991

5. Services offered by retail banks include :

- A) Consumer lending. B) Provision of credit and debit cards.
C) E-banking services. D) All the above.

Turn over

17. Explain priority sector lending.
18. What is recapitalisation ?

(5 × 2 = 10 marks)

Part C

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

19. Discuss the functions of NABARD.
20. Analyze the history of RRBs in India.
21. What are the key drivers of credit risk for NBFIs ?
22. Explain the option pricing model.
23. Examine the instruments of credit risk management.
24. Evaluate the features of IRDA Act.
25. Explain important principles of insurance.
26. Discuss the role of co-operative banking in India.
27. What are the features of Insurance Act, 1938 ?
28. Critically evaluate the role of LIC in the insurance sector of India.
29. Discuss the importance of insurance in retirement planning.
30. Examine the meaning and significance of homeowners insurance.

(8 × 5 = 40 marks)

Part D

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

31. Explain the credibility theory. Discuss different approaches to credibility theory.
32. Explain the functions of commercial banks in India.
33. What are the major risks faced by banks ? Discuss the meaning and principles of risk management.
34. Discuss the major recommendations of Malhotra Committee Report.

(2 × 10 = 20 marks)

FOURTH SEMESTER P.G. DEGREE EXAMINATION, APRIL 2021

(CCSS)

M.A. Financial Economics

FEC 4E 07—CORPORATE FINANCE AND CAPITAL BUDGETING

(2019 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A

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

1. Maximum stock level equals :
 - A) Reorder level + Reorder quantity.
 - B) Re-order level – Normal consumption.
 - C) Reorder level – Reorder quantity + (Minimum consumption – Minimum reorder period).
 - D) Reorder level + Reorder quantity – (Minimum consumption × Minimum reorder period).
2. If a project whose cash flows are more than the capital invested for the return, then :
 - A) The net present value will be negative.
 - B) The net present value will be positive.
 - C) The net present value will be zero.
 - D) The net present value cannot be determined.
3. What are the aspects of working capital management ?
 - A) Inventory management.
 - B) Receivable management.
 - C) Cash management.
 - D) All of the above.
4. Which among the following implies risk-return trade off ?
 - A) Minimization of risk.
 - B) Maximization of risk.
 - C) Optimization of risk.
 - D) Ignorance of risk.
5. Choose the correct statement related to ABC Analysis :

*Statement I : ABC Analysis is one of the important inventory control techniques.**Statement II : ABC Analysis is an analytical technique that tries to group materials into three categories on the basis of cost involved :*

- A) Statement I alone is correct.
- B) Statement II alone is correct.
- C) Statement I and II are correct.
- D) Statement I and II are incorrect.

Turn over

Part C

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

19. Discuss the factors determining capital structure.
20. Explain the budgeting problems most companies face in fiscal planning.
21. What are the factors affecting valuation of share ?
22. Explain the meaning and methods of financial statement analysis.
23. Examine the objectives of receivable management.
24. Explain the meaning and advantages of sensitivity analysis.
25. Prepare a note on cash management.
26. What is the difference between cash flow and income statement ?
27. Explain the major features of venture capital investments.
28. Explain dividend policy and dividend payout ratio.
29. Explain the meaning and significance IRR.
30. What is meant by private placement ? Examine condition for private placement.

(8 × 5 = 40 marks)

Part D

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

31. Discuss the significant responsibilities of a finance manager.
32. Explain the meaning and importance of capital structure.
33. What is meant by capital budgeting ? Explain the techniques of capital budgeting.
34. What is working capital ? Discuss the components of working capital.

(2 × 10 = 20 marks)

FOURTH SEMESTER P.G. DEGREE EXAMINATION, APRIL 2021

(CCSS)

M.A. Financial Economics

FEC 4E 05—FINANCIAL ENGINEERING AND STRUCTURAL FINANCE

(2019 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A

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

1. Financial swaps are used by the following organizations :
 - A) Multinational companies.
 - B) Commercial banks.
 - C) Sovereign governments.
 - D) All of the above.
2. Call swaptions are attractive when interests are expected to:
 - A) Fall.
 - B) Rise.
 - C) Stays the same.
 - D) None of the above.
3. Large positive swap spreads generally indicate that :

Statement I : A greater number of market participants are willing to swap their risk exposures

Statement II : Large spreads may signify reduced liquidity in the market.

 - A) Statement I alone is correct.
 - B) Statement II alone is correct.
 - C) Statement I and II are correct.
 - D) Statement I and II are incorrect.
4. Primary factors that determine the value of an option is/are:
 - A) Time premium that decays as the option approaches expiration.
 - B) Intrinsic value that varies with the price of the underlying security.
 - C) Volatility of the stock or contract.
 - D) All the above.
5. Unfunded credit derivatives *does not* include :
 - A) Credit default swap.
 - B) Credit Linked note.
 - C) Credit return swap.
 - D) Total return swap.

6. Swap spread equals :
- A) Yield on government bond - real interest rate.
 - B) Market rate of interest - swap rate.
 - C) Swap rate + market rate of interest.
 - D) Swap rate - yield on government bond.
7. The long position in a futures contract is the party that will :
- A) Benefit from decreases in the price of the underlying asset.
 - B) Agree to make delivery of a commodity or financial instrument at a future date.
 - C) Benefit from increases in the price of the underlying asset.
 - D) Accept the greater share of the risk.
8. The strike price of an option is :
- A) The market price at the time the option is written.
 - B) The market price at the time the option is exercised.
 - C) Always above the market price.
 - D) The price at which the option holder has the right to buy or sell.
9. Options have an advantage over futures because :
- A) They provide a hedge without removing the opportunity to make a profit.
 - B) They provide a more certain hedge.
 - C) They are likely to be cheaper because all one is buying is the right to do something.
 - D) They are less likely to require delivery of the underlying asset.
10. Fixed floating swaps are similar to :
- A) Commodity for interest swaps.
 - B) Interest rate swaps.
 - C) Gilt edged securities.
 - D) Swap spreads.

(10 × 1 = 10 marks)

Part B

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

- 11. What is an equity future ?
- 12. Distinguish between commodity and financial derivatives.
- 13. Define interest rate swap.

14. Explain currency forward.
15. What are OTC derivatives ?
16. What is equity-linked note ?
17. Define futures.
18. What is meant by credit derivative ?

(5 × 2 = 10 marks)

Part C

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

19. Explain the meaning and types of derivatives.
20. What is the difference between forward and futures contracts ?
21. There are various players in the commodity derivatives market. Discuss.
22. Examine various types of credit derivatives.
23. Discuss the advantages of forward contract.
24. Prepare a note on credit swaps.
25. Explain collateralised debt obligations.
26. What is equity and equity derivatives ?
27. Prepare a note on exchange-traded products.
28. What is meant by derivative? Explain the derivative pricing and valuation.
29. Explain commodity swaps. Discuss the various types of commodity swaps.
30. Examine funded credit derivatives.

(8 × 5 = 40 marks)

Part D

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

31. Explain the meaning and functions of derivatives. Discuss the major types of derivatives.
32. Explain commodity derivatives. What are the types of commodities traded in the commodity derivatives market ?
33. Explain credit-linked notes. Discuss the benefits and risks of credit derivatives.
34. What are the equity derivatives ? Explain the types of equity derivative.

(2 × 10 = 20 marks)

FOURTH SEMESTER P.G. DEGREE EXAMINATION, APRIL 2021

(CCSS)

M.A. Financial Economics

FEC 4E 04—APPLIED FINANCIAL ECONOMETRICS

(2019 Admissions)

Time : Three Hours

Maximum : 80 Marks

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

1. Glejser test is associated with :
 - (A) Autocorrelation.
 - (B) Multicollinearity.
 - (C) Heteroscedasticity.
 - (D) Dummy variable.
2. A dependent variable whose values are not observable outside a certain range but where the corresponding values of the independent variables are still available is known as :
 - (A) Truncated.
 - (B) Censored.
 - (C) Dummy.
 - (D) Multinomial.
3. The long term trend of a time series graph appears to be :
 - (A) Straight-line.
 - (B) Upward.
 - (C) Downward.
 - (D) Parabolic curve or third degree curve.
4. A model which is used to transform an infinite geometric lag model into a finite model with lagged dependent variable is :
 - (A) Logit model.
 - (B) Koyck model.
 - (C) LPM.
 - (D) Probability model.
5. A probit model is a type of regression where the dependent variable can take :
 - (A) Only one value.
 - (B) Only two values.
 - (C) Only three values.
 - (D) None of these.

Turn over

6. A visual way to show serial correlation in data that changes over time is :
- (A) Logit model. (B) Probit model.
(C) Correlogram (D) Histogram.
7. The systematic components of time series which follow regular pattern of variations are called :
- (A) Signal. (B) Noise.
(C) Additive model. (D) Multiplicative model.
8. Which of the following is an alternative to traditional single and simultaneous-equation models ?
- (A) Box-Jenkins approach. (B) VAR Approach.
(C) ACF. (D) Both (A) and (B).
9. Engel curve describes relation between :
- (A) Household expenditure and household income.
(B) Household saving and household income.
(C) Household investment and household income.
(D) None of these.
10. Durbin-Watson statistic will always have a value :
- (A) Between 0 and 1. (B) Between 0 and 2.
(C) Between 0 and 3. (D) Between 0 and 4.

(10 × 1 = 10 marks)

Part B

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

11. What do you mean by Hausman test ?
12. Define unit root.
13. What do you mean by p value ?
14. Define total sum of squares.
15. What is the difference between AR and MA model ?
16. Define intercept in a regression.

17. What is econometric forecasting ?
18. Identify the purpose of error correction.

(5 × 2 = 10 marks)

Part C

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

19. What is the difference between ECM and VECM ?
20. Discuss the limitations of the linear probability model.
21. Explain the meaning and use of simultaneous equations.
22. What is meant by heteroscedasticity ? How is it different from homoscedasticity ?
23. Explain Chow test.
24. Examine econometric applications in demand and production.
25. Distinguish between panel data and cross sectional data.
26. Examine Box-Jenkins model.
27. Explain the meaning and scope of econometrics.
28. Define econometric forecasting. What are the significant approaches to econometric forecasting ?
29. Describe the meaning and causes of autocorrelation.
30. Explain ARIMA model.

(8 × 5 = 40 marks)

Part D

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

31. Explain autoregressive conditional heteroscedasticity. How far it is different from generalized autoregressive conditional heteroscedasticity.
32. What is difference between logit and probit model ? Explain the limitations of qualitative response models.
33. Do you think that unit root tests are tests for stationarity in a time series ? Explain Phillips-Perron test.
34. Explain the estimation of panel data regression models. Discuss Random Effects Model (REM) and Fixed Effects Model (FEM).

(2 × 10 = 20 marks)