

**MODEL QUESTION PAPER FOR VALUATION EXAMINATION IN THE  
ASSET CLASS: SECURITIES OR FINANCIAL ASSETS  
(BASED ON REVISED SYLLABUS WITH EFFECT FROM 1<sup>st</sup> JULY 2022)**

1. The national output is measured at which of the following price?
  - a. Production price
  - b. Market price
  - c. Cost prices
  - d. Wholesale prices

Ans. (b)

2. Which of the following relation between fiscal deficit (FD) and primary deficit (PD) is correct?
  - a.  $PD = FD - \text{depreciation}$
  - b.  $PD = FD - \text{interest payments}$
  - c.  $FD = PD - \text{interest payments}$
  - d.  $FD = PD - \text{depreciation}$

Ans. (b)

3. Quantitative easing is an unconventional monetary policy in which a central bank purchase government securities or other securities from the market in order to\_\_\_\_.
  - a. rise interest rate and increase the money supply in the economy
  - b. lower interest rate and decrease the money supply in the economy
  - c. lower interest rate and increase the money supply in the foreign economy
  - d. lower interest rate and increase the money supply in the economy

Ans. (d)

4. An investment pays Rs. 300 annually for five years, with the first payment occurring today. The present value (PV) of the investment discounted at a 4 per cent annual rate is approximately \_\_\_\_\_.
  - a. 1336
  - b. 1389
  - c. 1625
  - d. 1925

Ans. (b)

5. Which of the following measures does not take into account the time value of money?
  - a. Payback period
  - b. Net present value
  - c. Internal rate of return
  - d. Discounted cash flow

Ans. (a)

6. If a firm has a P/E ratio of 15, and a ROE of 14 per cent, what is the market to book value of equity?
- 2.1
  - 1.5
  - 1.6
  - 3.0

Ans. (a)

7. The formula, total debt divided by total shareholders' equity determines the \_\_\_\_\_ of a company.
- Equity ratio
  - Debt to equity ratio
  - Capitalisation ratio
  - Profitability index

Ans. (b)

8. Which of the following is not a cash outflow?
- Increase in prepaid expenses
  - Increase in debtors
  - Increase in stocks
  - Increase in creditors

Ans. (d)

9. Which of the following statements is not true regarding Cash and Cash equivalents in a cash flow statement?
- Cash comprises cash on hand and demand deposits with the bank
  - Cash equivalents are short-term in nature
  - There is an insignificant risk of change in value of cash equivalents
  - Cash equivalents are highly illiquid investments

Ans. (d)

10. Which of the following is not a conduct most people associate with ethical behaviour?
- Bribing
  - Negotiating
  - Advocating
  - Lobbying

Ans. (a)

11. As an independent valuer, the valuer should not charge \_\_\_\_\_ fee.
- professional
  - success
  - mandate
  - legal

Ans. (b)

12. Which of the following would not be included in Valuer`s Engagement Letter?
- Timeline of the engagement
  - Management`s responsibilities with respect to financial records and accuracy of information
  - Terms of payment
  - Management representation

Ans. (d)

13. Which of the following capital is not shown in a company`s balance sheet?
- Reserve capital
  - Authorised Capital
  - Issued and Subscribed Capital
  - Called and paid-up capital

Ans. (a)

14. A Tribunal makes an order under section 230 of the Companies Act, 2013 sanctioning a compromise or an arrangement in respect of a company. In this context, which of the following cannot be true?
- It will supervise the implementation
  - It can give order for winding up of the company
  - It can modify the order or compromise
  - It can ask for creditors responsibility statement

Ans. (d)

15. Who is the authority for registration of valuers under the Companies (Registered Valuers and Valuation) Rules, 2017?
- MCA
  - NFRA
  - IBBI
  - NCLT

Ans. (c)

16. Which of the following is not eligible to be registered as a valuer?
- Registered partnership firm
  - Limited liability partnership
  - Limited liability company
  - Hindu undivided family

Ans. (d)

17. Which of the following can be transferred under the Transfer of Property Act, 1882?
- An easement along with the dominant heritage
  - Political pension
  - Succession
  - Stipends allowed to the civil pensioners of the Government

Ans. (a)

18. 'A' leases land to 'B' on condition that he shall walk a hundred miles in an hour. The lease is \_\_\_\_\_.
- valid
  - void
  - voidable
  - legal

Ans. (b)

19. How is stamp duty paid in transactions where more than one instrument is required?
- Stamp Duty is paid on all the instruments equally
  - Stamp Duty is paid on any one of the instrument
  - Stamp duty is paid only on one of the principal instruments and on the balance documents only minimum duty is payable
  - Stamp duty is paid on ad valorem basis

Ans. (c)

20. As per section 40(b) of the Income Tax Act, 1961, up to \_\_\_\_ per cent per annum simple interest on capital is allowed towards remuneration of working partners.
- 6
  - 12
  - 15
  - 16

Ans. (b)

21. Salary under section 17(1) of the Income Tax Act, 1961 does not include \_\_\_\_\_.
- wages
  - pension
  - interest
  - gratuity

Ans. (c)

22. The exemption under section 54 of the Income Tax Act, 1961 is available \_\_\_\_\_.
- to the extent of capital gain invested in the House property

- b. proportionate to the net consideration price invested
- c. to the extent of amount actually invested
- d. to the extent of net consideration

Ans.(a)

23. Who determines the amount of claim due to a creditor under the Insolvency and Bankruptcy Code, 2016?
- a. Committee of creditors.
  - b. Resolution professional.
  - c. Adjudicating authority.
  - d. Corporate debtor

Ans. (b)

24. Under the Insolvency and Bankruptcy Code, 2016, debts owed to a secured creditor in the event such secured creditor has relinquished security ranks equally with \_\_\_\_\_.
- a. insolvency resolution process costs
  - b. workmen's dues for a period of 24 months prior to liquidation commencement date
  - c. wages and any unpaid dues owed to employees other than workmen for the period of twelve months preceding the liquidation commencement date
  - d. dues to Central Government

Ans. (b)

25. Which of the following is not a financial service under the Insolvency and Bankruptcy Code, 2016?
- a. Accepting of deposits
  - b. Effecting contracts of insurance
  - c. Payment of wages to employees
  - d. Establishing or operating an investment scheme

Ans. (c)

26. Under the SARFAESI Act, 2002, the Central Registrar may allow the filing of the particulars of creation of security interest within \_\_\_\_\_ following the expiry of the period of initial thirty days on payment of additional fee.
- a. ten days
  - b. thirty days
  - c. twenty-five days
  - d. fifteen days

Ans. (b)

27. As per SEBI (ICDR) Regulations, 2018, which of the following come under qualified institutional buyer:
- A provident fund with minimum corpus of twenty crore rupees.
  - A provident fund with minimum corpus of twenty-five crore rupees.
  - A provident fund with minimum corpus of fifteen crore rupees.
  - A provident fund with minimum corpus of sixty-four crore rupees.

Ans. (b)

28. Which statute governs external commercial borrowing?
- Foreign Exchange Maximization Act, 1972
  - Foreign Exchange Management Act, 1999
  - Foreign Exchange Minimization Act, 2004
  - Foreign Exchange Regulation Act, 1972

Ans. (b)

29. As per the RBI (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 banks shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as \_\_\_\_\_.
- non-performing account
  - sub-standard account
  - standard account
  - special mention account

Ans. (d)

30. Ind AS 113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in \_\_\_\_\_ between market participants at the measurement date.
- an orderly transaction
  - a quick transaction
  - a purchase transaction
  - a sale transaction

Ans. (a)

31. As per Ind AS 113 which of the following is not a valuation technique?
- Market approach
  - Cost approach
  - Income approach
  - Worth approach

Ans. (d)

32. The scope of Ind AS 36 includes impairment of which of the following assets?
- inventories
  - financial assets classified as subsidiaries

- c. deferred tax assets
- d. assets arising from employee benefits

Ans. (b)

33. As per Ind AS 103, accounting for Business Combinations using the acquisition method requires which of the following?
- a. Identifying the acquirer
  - b. Determining the acquisition date
  - c. Recognising and measuring the identifiable assets acquired
  - d. Recognising and measuring any goodwill or bargain purchase

Ans. (c)

34. Karan bought 1000 shares of Infosys Limited at Rs. 910/- from his broker excluding brokerage and taxes however, current market price of that share was Rs. 915/-. In this statement Rs. 915/- reflects \_\_\_\_\_.
- a. fair value of the share
  - b. cost of his investment
  - c. investment value of the share
  - d. price of the share transaction

Ans. (a)

35. Under the Insolvency and Bankruptcy Code, 2016, fee of the liquidator is paid from the proceeds of sale of \_\_\_\_\_ of the corporate debtor.
- a. unencumbered liabilities
  - b. liquidation assets
  - c. liquidation fund
  - d. unencumbered reserves

Ans. (b)

36. Value of a firm is usually based on \_\_\_\_\_.
- a. the value of debt and equity
  - b. the value of assets and liabilities
  - c. the value of debt
  - d. the value of equity

Ans. (a)

37. An asset is officially appraised and priced on \_\_\_\_\_.
- a. verification date
  - b. valuation date
  - c. report date
  - d. effective date

Ans. (b)

38. Which of the following methods is included in 'asset based approach' (cost-based approach)?
- Comparable Companies' Multiple Method
  - Replacement Method
  - Earnings Capitalization Method
  - Discounted Cash Flow Method

Ans. (b)

39. Which of the following valuation methods would most likely not be used for business valuation of a firm/entity?
- Discounted cash flow (DCF)
  - Net assets method
  - Multi-period excess earning method
  - Industry price earnings ratio DCF

Ans. (c)

40. An analyst is valuing a firm's equity using the 'Enterprise Value to Revenue Ratio' of similar firms. Which of the following is not a factor that the analyst should use?
- Revenue growth
  - EBITDA margins
  - Expected return
  - Net Present Value

Ans. (d)

41. Labour laws, product standards, waste disposal rules etc are all \_\_\_\_\_ factors required to be considered while performing a Business Environment Analysis.
- economic
  - legal
  - social
  - cultural

Ans. (b)

42. In a SWOT analysis, the difficult cash flow situation of the business will be treated as a \_\_\_\_\_.
- strength
  - opportunity
  - weakness
  - threat

Ans. (c)



43. 'Economies of Scale' arises from \_\_\_\_\_ synergy in Merger and Acquisitions.
- a. operating
  - b. financial
  - c. managerial
  - d. market

Ans. (a)

44. \_\_\_\_\_ refers to a situation when two or more existing firms combine together and form a new entity.
- a. Acquisition
  - b. Restructure
  - c. Demerger
  - d. Merger

Ans. (d)

45. Which of the following measures risk?
- a. Standard Deviation
  - b. Trend analysis
  - c. Mean
  - d. Mode

Ans. (a)

46. Free cash flow is the difference between:
- a. NOPAT- Gross Investment
  - b. NOPAT- Capital Charge
  - c. Gross cash flow- Net investment
  - d. NOPAT- Net Investment + Depreciation

Ans. (d)

47. In case of valuation of firms for takeovers, which of the following provides a better estimate of value?
- a. Cash flows
  - b. Dividend per share
  - c. Earnings per share
  - d. Free cash flow to equity

Ans. (d)

48. When investors use a derivative instrument to reduce his exposure to the price volatility of certain underlying assets, he is said to be \_\_\_\_\_.
- a. speculating

- b. investing
- c. arbitraging
- d. hedging

Ans. (d)

49. The beta factor for a company is 0.863. The risk-free interest rate is 7 per cent and the market rate is 13 per cent. What is the cost of equity capital using CAPM approach?
- a. 12.18 per cent
  - b. 18.80 per cent
  - c. 9.80 per cent
  - d. 13.00 per cent

Ans. (a)

50. Which of the following is an asset pricing model based on the ideas that an asset's returns can be predicted using the relationship between that asset and common risk factors?
- a. Arbitrage pricing theory
  - b. Arbitrage risk theory
  - c. Arbitrage asset theory
  - d. Risk pricing theory

Ans. (a)

51. Which of the following factors are not associated with Arbitrage Pricing Theory Model?
- a. Inflation and money supply
  - b. Interest rate
  - c. Industrial production and personal consumption
  - d. Exchange rate

Ans. (d)

52. Typical parameters used in quantitative methods to estimate discount for lack of marketability include \_\_\_\_\_.
- a. duration of the restriction and risk of the investment
  - b. return of the investment
  - c. dividends paid
  - d. market size

Ans. (a)

53. Which is a type of preferred stock that stockholders can exchange for a predetermined number of a company's common stock?

- a. Prior preferred stock
- b. Convertible preferred stock
- c. Participating preferred stock
- d. Cumulative preferred stock

Ans. (b)

54. Agency bonds are issued by \_\_\_\_\_.
- a. local governments
  - b. national governments
  - c. quasi-government entities
  - d. corporates

Ans. (c)

55. If interest rates are expected to increase, the coupon payment structure most likely to benefit the issuer is a \_\_\_\_\_.
- a. step-up coupon
  - b. inflation-linked coupon
  - c. put option
  - d. cap in a floating rate note

Ans. (d)

56. Which of the following bonds has the shortest duration?
- a. A bond with 20-year maturity, 10 per cent coupon rate
  - b. A bond with 20-year maturity, 6 per cent coupon rate
  - c. A bond with 10-year maturity, 6 per cent coupon rate
  - d. A bond with 10-year maturity, 10 per cent coupon rate

Ans. (d)

57. \_\_\_\_\_ is the risk that the issuer will fail to satisfy the terms of the obligation with respect to the timely payment of interest and principal.
- a. Default risk
  - b. Spread risk
  - c. Volatility risk
  - d. Downgrade risk

Ans. (a)

58. What is the value of Three-Year 4.25 per cent Annual Coupon Bond Puttable at Par one year from now if one year forward rates at T (0), T (1) and T (2) are 2.5 per cent, 3 per cent and 4.5 per cent respectively?
- a. 101.5

- b. 101.71
- c. 102.67
- d. 102.89

Ans. (c)

59. The fixed-rate payer in an interest-rate swap has a position equivalent to a series of \_\_\_\_\_.

- a. long interest-puts and short interest-rate calls
- b. short interest-rate puts and long interest-rate calls
- c. long interest-rate puts and calls
- d. short interest-rate puts and calls

Ans. (b)

60. The collar of a floating-rate bond refers to the minimum and maximum \_\_\_\_\_.

- a. call periods
- b. maturity dates
- c. Strike rates for coupon
- d. yields to maturity

Ans. (c)

61. A perpetual bond does not have a fixed \_\_\_\_\_.

- a. interest rates
- b. maturity period
- c. duration
- d. underlying assets

Ans. (b)

62. Which principle refers that a buyer will pay no more for a property than the cost of an equally desirable (and comparable) alternative property?

- a. Principle of alternative
- b. Principle of expectation
- c. Principle of substitution
- d. Principle of risk and return

Ans. (c)

63. The first step in the Monte Carlo simulation process is to \_\_\_\_\_.

- a. generate random numbers
- b. set up cumulative probability distributions
- c. establish random number intervals
- d. set up probability distributions

Ans.(d)

64. Individuals hold their claims on real assets through \_\_\_\_\_ in a well-developed economy.
- intangible assets
  - tangible assets
  - real estate
  - financial assets

Ans.(d)

65. The credit default spread method of valuation of a guarantee given by a parent company on behalf of its subsidiary involves estimating the value \_\_\_\_\_.
- using credit default spread based on the credit rating of the subsidiary
  - using credit default spread based on the credit rating of the guarantor
  - based on probability of default
  - of the guarantee using an option pricing model

Ans.(a)

66. What are intangible assets?
- Non-monetary assets with physical substance
  - Monetary assets without physical substance
  - Non-monetary assets without physical substance
  - Monetary assets with physical substance

Ans.(c)

67. Relief-from-royalty method estimates the value of an asset based on the value of the royalty payments \_\_\_\_\_.
- from which the company is relieved due to its ownership of the asset
  - made by the company to acquire ownership of the asset
  - received by the company from the useful life of the asset
  - over and above the internal rate of return

Ans.(a)

68. If the aggregate fair market value of prescribed movable property received by a taxpayer as gift during the year is Rs.1,50,000, tax will be charged on \_\_\_\_\_.
- Rs.1,00,000
  - Rs.50,000
  - Rs.1,50,000
  - Rs.0

Ans. (c)

69. Which of the following method, would you consider most appropriate while valuing the intangible assets?
- Black & Scholes pricing method
  - Distributor method
  - Market multiple method
  - Risk factor summation method

Ans. (b)

70. During Mergers and Acquisitions (M&A) transaction, the ability to find and use good comparable data for a valuation is relatively \_\_\_\_\_.
- easy because each successful company within an industry uses the same ratios
  - easy because public stock price fluctuation is not sufficient or erratic enough to make a difference
  - difficult because book value is adjusted in small companies as FIFO (first-in first out) is the method of choice and in public companies' book value is static due to LIFO (last-in-first our method)
  - difficult because size differential, management depth, product diversity and access to lines of credit will seldom match the company you are valuing

Ans. (d)

71. Which of the following is not a method of valuation of Start-up Entities?
- Venture Capital method
  - Berkus method
  - Risk Free Factor Summation method
  - Scorecard Valuation method

Ans. (c)

72. What adjustment is made while using the Discounted Cash Flow method to value cyclical companies?
- Normalize earnings
  - Use high discount rate
  - Use bank rate for discounting
  - Use high growth rate

Ans. (a)

73. A decline in the combined ratio is most likely to indicate that the insurer has \_\_\_\_\_.
- increased its administration expenses
  - increased its long-term borrowing
  - improved its investment returns
  - improved its underwriting results

Ans. (d)

74. Which of the following cases fair exchange ratio based on Manageable Profit Method, Net Worth or Break up Method and market value accepted by the court?

- a. Wenger & Co. Vs. D.V.O. (115 I.T.R. 648)
- b. Gold Coast Trust Ltd. Vs. Humphray (1949) 17 ITR 19
- c. Rustam C Cooper Vs. Union of India AIR 1970 SC 564
- d. Miheer H. Mafatlal Vs. Mafatlal Industries case

Ans. (d)

**Attempt questions 75-80 based upon the following case study:**

- I. Balram is the chief investment officer at an Indian pension fund sponsor and Krishna is an analyst for the pension follows consumer / noncyclical stocks. At the beginning of 2019, Balram asks Krishna to value the equity of Mathura Company for its possible inclusion in the list of approved investments. Mathura Foods company is involved in the production of frozen foods that are sold under its own brand name. Krishna is considering whether a dividend discount model would be appropriate for valuing Mathura Foods. He has compiled the information in the following table for the company's EPS and DPS during the past five years. The quarterly dividends paid by the company have been added to arrive at the annual dividends. Krishna has also computed dividend pay-out ratio for each year as DPS/ EPS and the growth rates in EPS and DPS.

Year	EPS (Rs)	DPS (Rs)	Pay-out Ratio	Growth in EPS	Growth in DPS
2018	2.12	0.59	0.278	2.9 per cent	3.5 per cent
2017	2.06	0.57	0.277	2.5 per cent	5.6 per cent
2016	2.01	0.54	0.269	6.3 per cent	5.9 per cent
2015	1.89	0.51	0.270	6.2 per cent	6.3 per cent
2014	1.78	0.48	0.270		

Krishna notes that the EPS of the company has been increasing at an average rate of 4.48 percent per year. The dividend pay-out ratio has remained fairly stable, and dividends have increased at an average rate of 5.30 percent. In view of a history dividend payments by the company and the understandable relationship dividend policy bears to the company earnings, Krishna concludes that the DDM is appropriate to value the equity of Mathura Foods. Further, he expects the moderate growth rate of the company to persist and decides to use the Gordon growth model. Krishna uses the CAPM to compute the return on equity. He uses the annual yield of 4 percent on the 10-year Treasury bond as the risk-free return. He estimates the expected Indian equity risk premium with the Sensex 500 Index used as proxy for the market, to be 6.5 Percent per year. The estimated beta of Mathura Foods against the Sensex 500 Index is 1.10.

Accordingly, Krishna's estimate for the required return on equity for Mathura Foods is  $0.04 + 1.10(0.065)$  0.1115 or 11.15 percent. Using, the past growth rate in dividends of 5.30 percent as his estimate of the future growth rate in dividends, Krishna computes the value of Mathura Foods stock. He shows his analysis to Amit his colleague at the pension fund who specializes the frozen foods industry. Amit concurs with the valuation approach used by Krishna but

disagrees with the future growth rate he used. Amit believes that the stock's current price of Rs. 8.42 is the fair value of the stock.

(6x2 = 12 marks)

75. Which of the following is closest to Krishna estimate of the stock's Value?

- a. Rs 10.08
- b. Rs 10.54
- c. Rs 10.62
- d. Rs 10.80

Ans. (c)

76. What is the stock's justified trailing P/E based on the stock's value estimated by Krishna?

- a. 5.01
- b. 5.24
- c. 5.27
- d. 5.30

Ans. (a)

77. Krishna considers a security trading within a band of +/-10 percent of his estimate value to be within a fair value range. By that criterion, the stock of Mathura foods is \_\_\_\_\_.

- a. Under valued
- b. Fairly valued
- c. Over valued
- d. Par valued

Ans. (a)

78. The beta of Mathura foods stock of 1.10 used by Krishna in computing the required return on equity was based on monthly returns for the past 10 years. If Krishna uses daily returns for the past 5 years, the beta estimate is 1.25. If a beta of 1.25 is used, what would be Krishna's estimate of the value of the stock of Mathura Foods?

- a. Rs 8.64
- b. Rs 9.13
- c. Rs 20.13
- d. Rs 21.50

Ans. (b)

79. Amit has suggested that the market price of Mathura Foods stock is its fair value. What is the implied growth rate of dividends given the stock's market price?

(Use the required return on equity based on a beta of 1.10)



- a. 3.87 per cent
- b. 5.3 per cent
- c. 12.1 per cent
- d. 12.5 per cent

Ans. (a)

80. If Amit is correct that the current price of Mathura Foods stock is its fair value, what is expected capital gains yield on the stock?

- e. 3.87 per cent
- f. 4.25 per cent
- g. 5.3 per cent
- h. 6.0 per cent

Ans. (a)

**Attempt questions 81-84 based upon the following case study:**

II. In 1995, Daimler Benz reported an operating loss of Rs.2,016 crore and a net loss of Rs.5,674 crore. Much of the loss could be attributed to firm-specific problems including a large write-off of a failed investment in Fokker Aerospace, an aircraft manufacturer. To estimate normalised earnings at Daimler Benz, we eliminated all charges related to these items and estimated a pre-tax operating income of Rs.5,693 crore. To complete the valuation, the following additional assumptions are made.

1. Revenues at Daimler had been growing 3-5 per cent a year prior to 1995 and we anticipated that the long-term growth rate would be 5 per cent in both revenues and operating income.
2. The firm had a book value of capital invested of Rs.43,558 crore at the beginning of 1995 and was expected to maintain its return on capital (based upon the adjusted operating income of Rs.5,693 crore).
3. The tax rate applicable to the firm is 44 per cent.

Further information is as follows:

- i. Bottom-up beta of 0.95.
- ii. The long-term bond rate is 6 per cent, and Daimler Benz could borrow long term at 6.1 per cent.
- iii. Market risk premium of 4 per cent.
- iv. The market value of equity was Rs.50,000 crore and there was Rs.26,281 crore in debt outstanding at the end of 1995.

(4x2 = 8 marks)

81. Calculate post tax return on capital at the firm, using the adjusted operating income?

- a. 7.32 per cent
- b. 8.30 per cent
- c. 9.32 per cent

d. 5.32 per cent

Ans. (a)

82. Calculate the Reinvestment rate using 5 per cent expected growth rate?

a. 69.31 per cent

b. 68.31 per cent

c. 70.31 per cent

d. 85.31 per cent

Ans. (b)

83. Calculate cost of capital using bottom up beta of 0.95?

a. 8.60 per cent

b. 9.60 per cent

c. 6.60 per cent

d. 7.60 per cent

Ans. (d)

84. Calculate expected free cash flows in 1996?

a. Rs.900

b. Rs.1061

c. Rs.1210

d. Rs.1105

Ans. (b)

**Attempt questions 85-87 based upon the following case study:**

III. Based on the credit rating of the bonds Mr. Drona has decided to apply the following discount rates for valuing bonds:

Credit Rating	Discount rate
AAA	364-day T-bill rate + 3 per cent spread
AA	AAA + 2 per cent spread
A	AAA + 3 per cent spread

He is considering investing in an AA rated, Rs. 1000 face value bond currently selling at Rs. 1025.68. The bond has five years to maturity and the coupon rate on the bond is 15 per cent per annum payable annually. The next interest payment is due one year from today and the bond is redeemable at par.

Assuming the 364-day bill rate to be 9 per cent, you are required to answer the following questions.

(3x2 = 6 marks)

85. Calculate the intrinsic (fair) value of the bond.

- a. Rs. 515
- b. Rs. 1000
- c. Rs. 1025.86
- d. Rs. 1034

Ans. (d)

86. What is the current yield of the bond?

- a. 15.00 per cent
- b. 14.50 per cent
- c. 14.24 per cent
- d. 14.00 per cent

Ans. (b)

87. Should Mr. Drona invest in the bond?

- a. Yes, because the current market price of the bond is less than its fair value
- b. Yes, because the current market price of the bond is more than its fair value
- c. No, because the fair value of the bond is less than its current market price
- d. Cannot be decided with the given information

Ans. (a)

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