

## Merchant Banking & Financial Services

### MCQ

1. A merchant bank is a financial institution conducting money market activities and:
  - a. Lending
  - b. Underwriting and financial advice
  - c. Investment service
  - d. All of the above**
  
2. In India Merchant banking along with management of public issues and loan syndication covering activities like-
  1. Project counseling
  2. Portfolio management
  3. Investment counseling
  4. Mergers and amalgamation of the corporate firms
  5. Securities and exchange
    - a. 1, 2, 4, 5
    - b. 1, 2, 3, 5
    - c. 1, 2, 3, 4**
    - d. 2, 3, 4, 5
  
3. Formal merchant banking activity in India was originated in\_\_\_\_\_.
  - a. 1978
  - b. 1969**
  - c. 1769
  - d. 1987
  
4. In India, merchant-banking activity was originated with the merchant banking division set up by the\_\_\_\_\_.
  - a. Barclays bank
  - b. Grind lays bank**
  - c. Yes bank
  - d. None of the above
  
5. State Bank of India started merchant banking in\_\_\_\_\_ followed by ICICI in\_\_\_\_\_.
  - a. 1972, 1974

b. 1978, 1980

**c. 1973, 1974**

d. 1980, 1981

6. The early growth of merchant banking in the country is assigned to the\_\_\_\_\_.

a. FEMA

**b. Foreign Exchange Regulation Act, 1973**

c. Securities Contracts Act

d. Income-tax Act

7. Developmental activities of merchant banking:

a. Sources of funds forever

b. Expanding industry and trade

c. Leaving a widening gap unbridged between supply and demand of investible funds.

**d. All of the above**

8. Different enactments for raising funds from the capital market:

1. Companies Act

2. Income-Tax Act

3. Foreign Exchange Regulation Act

4. Securities Contracts Act

5. Corporate laws and Regulations

a. 1,2,4, 5

b. 2, 3, 4, 5

**c. 1, 2, 3, 4, 5**

d. 2,3,4

9. The term 'Merchant Bank' is used in:

a. United States

**b. United Kingdom**

c. America

d. India

10. In India, merchant Banks operate in the form of divisions of India and foreign banks and financial institution, Subsidiary companies established by-

1. SBI Capital Markets Ltd.

2. Can Bank Financial Services Ltd.

3. PNB Capital Services Ltd.

4. BOI Finance Ltd.
5. Indian Bank Merchant Banking Services Ltd.

- a. 1, 2, 4, 5
- b. 2, 3, 4, 5
- c. 1, 2, 3, 4, 5**
- d. 1, 3, 4, 5

11. Banks implement the RBI's \_\_\_\_\_ policies.

- a. Monetary
- b. Credit
- c. Commercial
- d. Both a and b**

12. State level financial institutions are:

1. IFCI
2. SFCs
3. SIDCs
4. IRBI
5. SIICs

- a. 1, 2, 4
- b. 2, 3, 5**
- c. 1, 3, 5
- d. 1, 4, 5

13. \_\_\_\_\_ is basically a savings and investment corporation.

- a. UTI**
- b. IDBI
- c. SBI
- d. RBI

14. Identify the money market instruments:

1. Call Money Market
2. Treasury Bills
3. Commercial bills
4. Commercial paper

- 5. Certificate of deposit
- 6. Foreign investment policy
  - a. 1, 2, 4, 5, 6
  - b. 2, 3, 4, 5, 6
  - c. 1, 2, 3, 4, 5
  - d. All of the above**

15. Secondary markets in treasury bills require involvement of \_\_\_\_\_ and \_\_\_\_\_.

- a. Brokers, Dealers**
- b. Buyers, Sellers
- c. Consumer, Producer
- d. All of the above

16. Merchant bank is an organization that-

- a. Underwrites securities for corporations
- b. Advice clients on mergers
- c. Involved in ownership of commercial ventures
- d. All of the above**

17. The criteria for authorization of merchant bankers includes:

- 1. Professional qualification in finance, law or business management
- 2. Infrastructure like adequate office space, equipment and manpower
- 3. Employment of two persons who have the experience to conduct business of merchant bankers
- 4. Capital adequacy
- 5. Past track record, experience, general expectation and fairness in all transaction

- a. 1, 2, 4, 5
- b. 1, 2, 3, 4, 5**
- c. 2, 3, 4, 5
- d. None of the above

18. The four categories of merchant bankers issued by SEBI:

- 1. First category
- i. Who act as an advisor or consultant to an issue

- 2. Secondary category                      ii. Those authorized to act as an underwriter, advisor.
- 3. Third category                            iii. Those authorized to act in the capacity of co-manager
- 4. Fourth category                         iv. Who carry on any activity of issue management

- a. 1-I, 2-ii, 3-iii, 4-iv
- b. 1-iv, 2-iii, 3-ii, 4-I**
- c. 1-iii, 2-I, 3-iv, 4-ii
- d. None of the above

19. Issue management is an important function of \_\_\_\_\_ and \_\_\_\_\_.

- a. Merchant banker, lead manager**
- b. Public banker, Merchant banker
- c. Lead banker, Private banking
- d. None of the above

20. In simple terms, the management of issues for raising funds through various types of instruments by companies is known as:

- a. Lead management
- b. Merchant banking
- c. Issue management**
- d. Public issue management

21. Companies raise funds for the purposes of:

- 1. Financing new projects
- 2. Expansion of existing units
- 3. Modernization & diversification of existing units
- 4. Organizing long term resources for working capital purposes

- a. 1, 2, 3
- b. 2, 3, 4
- c. 1, 2, 3, 4**

d. 1, 3, 4

22. Categories of securities issue:

- a. Public issue
- b. Rights issue
- c. Private placement
- d. All of the above**

23. Private placement covers-

- a. Shares
- b. Preference shares
- c. Debentures
- d. All of the above**

24. Match the following:

- |                      |  |
|----------------------|--|
| 1. Public issue      | i. When capital funds are raised through the issue of prospects.         |
| 2. Rights issue      | ii. When shares are issued to the existing shareholders of a company     |
| 3. Private placement | iii. When the issuing company sells securities directly to the investors |

- a. 1-I, 2-ii, 3-iii**
- b. 1-iii, 2-ii, 3-I
- c. 1-ii, 2-iii, 3-I
- d. 1-iii, 2-I, 3-ii

25. Equity funding is preferable especially when the project is\_\_\_\_\_.

- a. Fund intensive
- b. Finance intensive
- c. Capital intensive**
- d. Application intensive

26. Match the following:

- |                          |  |
|--------------------------|--|
| 1. Pre-Issue Activities  | i. Signing of MOU                      |
| 2. Post-Issue Activities | ii. Dispatch of share certificates     |
|                          | iii. Issue of closure                  |
|                          | iv. Finalization of basis of allotment |
|                          | v. Filing with ROC                     |
|                          | vi. Advertisement                      |

- a. 1-I, ii, iii and 2-iv, v, vi
- b. 1-I, iii, v and 2-ii, iv, vi**
- c. 1-ii, iii, iv and 2- I, v, vi
- d. None of the above

27. The \_\_\_\_\_ has to manage the post-issue activities.

- a. Merchant banker
- b. Lead manager**
- c. Bank promoter
- d. All of the above

28. It is a process by which a demand for the securities proposed to be issued by a body corporate is elicited.

- a. Book building**
- b. Share certificate
- c. Promoter issue
- d. Circular

29. Financial services through the network of elements such as \_\_\_\_\_, serve the needs of individuals, institutions and Corporate.

- a. Financial institutions
- b. Financial markets
- c. Financial instruments
- d. **All of the above**

30. \_\_\_\_\_ is regarded as the fourth element of the financial system.

- a. **Financial services**
- b. Financial markets
- c. Financial instruments
- d. Financial institutions

31. Objectives of financial services:

- 1. Fund raising
- 2. Funds deployment
- 3. Specialized services
- 4. Regulation
- 5. Economic growth
  - a. 1, 2, 4, 5
  - b. 2, 3, 4, 5
  - c. **1, 2, 3, 4, 5**
  - d. 1, 3, 4, 5

32. Chief characteristics of financial services:

- 1. Intangibility
- 2. Customer orientation
- 3. Inseparability

4. Dynamism

- a. 1, 2, 3
- b. 2, 3, 4
- c. 1, 3, 4
- d. 1, 2, 3, 4**

33. Match the following:

- 1. Fund based activities
- 2. Non-fund based activities
- i. Underwriting of/or investment in shares
- ii. Dealing in secondary market
- iii. Arrangement of funds from financial institutions
- iv. Managing the capital issues

- a. 1-I, ii and 2-iii, iv**
- b. 1-ii, iv and 2-I, iii
- c. 1-I, iv and 2-ii, iii
- d. 1-iii, iv and 2-I, ii

34. Factors affecting assigned ratings:

- a. The character and terms of the particular security being issued.
- b. The probability that the issuer will default the security and the ability and willingness of the issuer to make timely payments
- c. The degree of protection extended to investors if the securities are liquidated, reorganized, and/or if the organization declares bankruptcy.
- d. All of the above**

35. Identify the benefits of credit-rating to investors:

1. Safeguard against bankruptcy
2. Lower cost of borrowing
3. Saving of resources
4. Reduction of cost in public issues
5. Credibility of issues
6. Wider audience for borrowing

- a. **1, 3, 5**
- b. 2, 4, 6
- c. 1, 4, 5, 6
- d. All of the above

36. CRISIL has been promoted by \_\_\_\_\_ and \_\_\_\_\_.

- a. **ICICI, UTI**
- b. IDBI, SBI
- c. AXIS, UTI
- d. PNB, SBI

37. The term \_\_\_\_\_ is defined as a central location for keeping securities on deposit.

- a. **Depository**
- b. Instrument
- c. Institutions
- d. None of the above

38. The \_\_\_\_\_ is the apex organization in the Indian money market.

- a. **SBI**
- b. RBI
- c. ICICI
- d. IDBI

39. The principal instruments of the organized money market –

1. The call money market
2. The repo market
3. The treasury bill market

4. The commercial bill market

5. The certificate of deposits market

6. The commercial papers market

7. The money market mutual funds

a. 1, 2, 4, 5, 7

b. 2, 3, 5, 6, 7

c. 1, 2, 3, 6, 7

**d. All of the above**

40. Any change in flow of funds and the demand of them, is clearly reflected in –

**a. Call money market**

b. Money market

c. Repo market

d. Commercial bill market

41. \_\_\_\_\_operates in Inter-bank call money market.

a. Scheduled commercial banks

b. Co-operative banks

c. Financer house of India

**d. All of the above**

42. Lead merchant banker should advice the issuer to enter into ----- with a particular intermediary for the purpose of issue management.

**(a) Memorandum of understanding**

(b) R O C

(c) Agreement

(d) Arrangement.

43. The number of lead merchant bankers may not exceed in case any issue of, issue size 200crore to 400crore.

(a)4

(b) 3

(c) 6

**(d) 5.**

44. A merchant bank can help an organization specifically in promotional functions,

-----.

- (a) Sponsoring the issue
- (b) Marketing
- (c) None of these
- (d) All of these.**

45. Role of merchant bankers-----.

- (a) Mobilization of funds
- (b) Promotional function
- (c) Innovation

**(d) All of these.**

46. ----- is a financial intermediary who helps to mobilize and transfer capital from those who possess it to those who need it.

- (a) Lease finance
- (b) Venture capital**
- (c) Merchant banker
- (d) hire purchaser .

47.----- is a long term risk capital to finance high technology projects which involve risk but at same time has strong potential for growth.

- (a) Venture capital**
- (b) hedge finance
- (c) Merchant banker
- (d) hire purchaser.**

48. -----act as an intermediary to link up the sources of ideas and the sources of fund.

**(a) Venture capital**

- (b) Merchant banking
- (c) Leasing

(d) None of these.

49. The first bank to set up a separate merchant banking division in India.

- (a) Punjab national bank
- (b) Standard chartered bank
- (c) National & Grin days bank**
- (d) National city bank.

50. Which of the following is not a fee-based financial service?

- (a) Corporate counseling
- (b) Lease financing**
- (c) Profit management

(d) Issue management.

51. All merchant bankers must have minimum net worth of -----.

(a) **5crore**

(b) 1crore

(c) 10crore

(d) 20crore.

52. Find out odd one- Authorization criteria of merchant bankers.

(a) **All business performed**

(b) professional competence

(c)Capital adequacy

(d) Past experience.

53. ----- covers the entire range of services provided by a merchant banker.

(a) Project counseling

(b) **Corporate counseling**

(c) Credit syndication

(d) Market makers.

54. Functions of financial services exclude -----.

(a) Mobilization of savings (b) Allocation of fund

(c) Specialized services (d) **Collection of tax.**

55. Financial service companies exclude -----.

(a) Commercial banks

(b) Insurance companies

(c) **Sole proprietorship**

(d) Crepitating agencies.

56. Financial services offered financing risk project e.g. Risk capital scheme of I F C I venture capital fund of I D F I tc. to provide -----.

(a) Seed capital

(b) **Venture capital**

(c) Primary fund

(d) secondary fund.

57. Category 1 merchant bankers can act as .

(a) Only as advisor

(b) Underwriter

(c) Consultant

(d) **All issue management functions.**

58. Merchant bankers are .

(a) Merchants

(b) Banks

(c) **Neither merchants nor banks**

(d) None of these.

59. Merchant banker shall not associate with any business other than that of the securities market.

(a) False

(b) **True**

60. The number of lead merchant bankers may not exceeds in case any issue of , issue size less than Rs.50crore,number of MBs -----.

(a) 1

(b)3

(c)2

(d) 4.

61. Leasing of machinery can be categorized as \_\_\_\_\_

a) Fixed asset

b) Investment decision

c) **Financing decision**

d) Capital budgeting decision

62. A mutually exclusive decision means

a) **Accepting of an alternative, leads to rejecting of other**

b) Accepting of both alternatives

c) Rejecting of both alternatives

d) Both c & d

65. Which of the following has Net profit as basis for calculation

a) Net present value

b) **Average rate of return**

c) Internal rate of return

d) Payback period

66. Internal rate of return is ...

a) Rate at which discounted cash inflow is more than discounted cash outflow

b) Rate at which discounted cash inflow is less than discounted cash outflow

c) **Rate at which discounted cash inflow is equal to the discounted cash outflow**

d) Either a or b

67. Corporate wealth maximization is the value maximization for \_\_\_\_\_

a) Equity shareholders

b) **Stakeholders**

c) Employees

d) Debt capital owners

68. Book value of assets includes

a) Fixed assets, current asset

b) **Fixed assets, current asset, intangible asset**

c) Fixed assets, current asset, fictitious asset

d) Fixed assets, current asset, intangible asset, fictitious asset

69. Listed companies can be valued at

a) Book Value

b) **Market value**

- c) Salvage value
- d) Liquidation value

70. Unlisted company can be valued at

- a) Net asset Method**
- b) Market value method
- c) Both a & b
- d) None of the above

71. Which of the following valuation methods is based on "Going concern concept"

- a) Market value method
- b) Book value method**
- c) Liquidation method
- d) Salvage value method

72. A company has a profit attributable to ordinary shareholders of £100,000. The number of ordinary shares of £1 in issue during the year was 300,000. The market value of the company's shares at the year end was £6.50. The price/earnings ratio for this company is:

- a) 0.05 times
- b) 0.33 times
- c) 6.5 times
- d) 19.5 times**

**73 Which of the following is not one of the three fundamental methods of firm valuation?**

- a) Discounted Cash flow
- b) Income or earnings - where the firm is valued on some multiple of accounting income or earnings.
- c) Balance sheet - where the firm is valued in terms of its assets.
- d) Market Share**

**74 What is the value of the firm usually based on?**

- a) The value of debt and equity.
- b) The value of equity.**
- c) The value of debt.
- d) The value of assets plus liabilities.

**75 Which of the following defines the market to book value?**

- a) The ratio of stock market valuation divided by the value of its NAV.**
- b) The ratio of NAV value divided by stock market valuation.
- c) The market value of tangible assets divided by the book value of tangible assets.
- d) The market value of intangible assets divided by the book value of intangible assets.

**76. Shareholders wealth increases with the increase in \_\_\_\_\_**

- a) EPS
- b) Market value of the firm
- c) Dividend & market value of the firm**
- d) Market price of the equity share

**79 Promotion of welfare of human by corporate is called as \_\_\_\_\_**

- a) Social service
- b) Philosophy
- c) NGO work
- d) Corporate philanthropy**

**80 Leasing of machinery can be categorized as \_\_\_\_\_**

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- b) Accepting of both alternatives
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- c) Rate at which discounted cash inflow is equal to the discounted cash outflow**
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**84. Corporate wealth maximization is the value maximization for \_\_\_\_\_**

- a) Equity shareholders
- b) Stakeholders**
- c) Employees
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**85. Book value of assets includes**

- a) Fixed assets, current asset
- b) Fixed assets, current asset, intangible asset**
- c) Fixed assets, current asset, fictitious asset
- d) Fixed assets, current asset, intangible asset, fictitious asset

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- a) Book Value
- b) Market value**
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- d) Liquidation value

**87. Unlisted company can be valued at**

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- b) Market value method
- c) Both a & b
- d) None of the above

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- a) 0.05 times
- b) 0.33 times
- c) 6.5 times
- d) 19.5 times**

**90. What does the price/earnings (PE) ratio measure?**

- a) The multiple that the stock market places on a company's earnings
- b) The number of times that dividends paid are covered by profits**
- c) The return received by way of dividends as a percentage of current share price

d) The amount of profits available to ordinary shareholders

**91.If a company has a share price of \$100 and its earnings per share averaged \$2, what is its P/E ratio?**

- a) 20
- b) 50
- c) 80
- d) 70**

**92.If a company's earnings per share is \$20 and it has a share price of \$600, what is the P/E ratio?**

- a) 30**
- b) 40
- c) 50
- d) 20

**93.The term can be used in a broad sense to describe all the policies, procedures, relationships, and systems in place to oversee the successful and legal operation of the enterprise.**

- a) corporate governance
- b) corporate policy
- c) corporate oversight
- d) corporate strategy**

**94.Making gifts of money, goods, or time to help non-profit organizations, groups or individuals is:**

- a) Corporate social marketing
- b) Cause marketing**
- c) Cause-related marketing
- d) Corporate philanthropy

**95.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) A grow slowly**
- d) not grow

**96.Historically, P/E ratios have tended to be \_\_\_\_\_.**

- a) higher when inflation has been high
- b) lower when inflation has been high
- c) uncorrelated with inflation rates but correlated** with other macroeconomic variables
- d) uncorrelated with any macroeconomic variables including inflation rates

**97. All of the following influence capital budgeting cash flows EXCEPT:**

- a) Accelerated depreciation
- b) Salvage value
- c) Tax rate changes**
- d) Method of project financing used

**98. Market price per share of a firm having equity capital of Rs. 100000 consisting of shares of Rs. 10 each, profit after tax of Rs. 82000, & P/E ratio of 8 is**

- a) Rs. 65.70
- b) Rs.10.25
- c) Rs.65.60**
- d) Rs.1.025

**99.Which of the following best describes "Market Value Added"?**

- a) **The value added to the product the firm produces above and beyond the costs of the inputs.**
- b) The difference between the book value of equity and debt versus the market value

of the firm.

- c) The difference between the market value of the firm and the amount of contributed capital.
- d) None of the above accurately describes Market Value Added

**100. Which of the performance evaluation methods takes into consideration tax effects?**

- a) Economic value added
  - b) **Return on sales**
  - c) Residual income
  - d) Return on investment.
- a) percent long-term debt mixture