

# INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

## SPRING SEMESTER 2009

### QUIZ No. 2

Marks: 20

#### Instructions

Submit your solution file (word documents) in the following shape/form.

| Q No. | Selected option |
|-------|-----------------|
| 1     | b               |
| 2     | a               |
| 3     | d               |

- **No marks will be given for solutions submitted against instructions. You can attempt the QUIZ from 08/04/2009 to 09/04/2009.**
- Make Sure that you upload the Quiz before due date and time.
- No Quiz will be accepted through E-mail after the due date.
- Once you upload the assignment on LMS, it will not be replaced under any condition.
- Students are required to submit solution file in MS Office format.
- Quiz will cover a total of **09** Lectures from **Lecture: 11 to Lecture: 19.**

1. Which one of following statement is **TRUE** if intrinsic value of a security is higher than its current market price?
  - The security is being undervalued
  - The security is being overvalued
  - The security is correctly valued
  - None of given options
2. Which one of the following is correct formula for calculating gross margin?
  - Net Profit/Net Sales
  - Gross Profit/Net Sales
  - Net income/Net Sales
  - Gross Profit/credit Sales
3. Which of the following is defined as a procedure for valuing the price of a stock by using predicted dividends and discounting them back to present value?
  - Dividend Discount Model
  - Relative Strength Index
  - On Balance Volume
  - Bollinger bands

4. Which one of the following is correct formula for calculating operating margin?
- Net Profit/Net Sales
  - Operating income/Net Sales
  - Net income/Net Sales
  - Operating income/credit sales
5. Which of the following ratios are of more concern for the shareholders?
- Liquidity and profitability
  - Profitability and leverage
  - Liquidity and leverage
  - Profitability and activity
6. Which of the following ratios would not be used to draw a conclusion about a company's managerial effectiveness?
- Price-Earnings Ratio
  - Net margin
  - Return on equity
  - Return on Investment
7. Which of the following industry is sensitive to business cycle and price changes?
- Growth industry
  - Defensive industry
  - Cyclical industry
  - Interest sensitive industry
8. Which of the following is defined as a stock whose price tends to move in the opposite direction from that of interest rates?
- Defensive stock
  - Interest sensitive stock
  - Growth stock
  - Value stock
9. Which of the following is **EXCLUDED** from Porter's competitive factors?
- Changes in the economy
  - Bargaining power of buyers
  - Rivalry between existing competitors
  - Substitute products or services
10. What does Return on Assets (ROA) show the analyst?
- The accounting rate of return that stockholders earn on their portion of the total capital
  - The ability of the company to use its assets to produce profits
  - The riskiness of the company

- Book value per share

**11.** Balance sheet shows the:

- Balances of all accounts
- Net profit earned during a period
- Financial position of business
- Expense of a business

**12.** Which of the following is an intangible asset with an identifiable useful life?

- Timber
- Patent
- Goodwill
- Trademark

**13.** On which of the following financial statements would you expect to find revenues and expenses?

- Income statement
- Balance sheet
- Statement of cash flows
- Statement of changes in equity

**14.** Cash flow statement comprises of which of the following activities?

- Operating activities only
- Operating, investing, and financing activities
- Investing and operating activities
- Operating and financing activities

**15.** When inflation and interest rates are high, P/E ratios tend to be.

- High
- Low
- Minimum
- Average

**16.** When PE multiples are high, future returns are:

- Low
- High
- Minimum
- Average

**17.** Which of the following is NOT true about expansion stage?

- Marketplace is full of competitors
- Firm operations more stable, dependable
- Financial policies firmly established
- Dividends often become payable

- 18.** In bottom-up approach of fundamental analysis, investors begin their analysis with:
- Industry
  - Company
  - Economy
  - Market
- 19.** Which of the following stage offers the highest potential returns and greatest risk?
- Pioneering stage
  - Expansion stage
  - Stabilization stage
  - Decline stage
- 20.** Which of the following estimates are needed while applying fundamental analysis to the market?
- Stream of shareholder benefits
  - Earnings and dividends
  - Required return or earnings multiple
  - All of given options