Unit. 1 Sources of Finance:

1. Business finance refers to ...... and .... employed in a business.

A. money
B. credit
C. both a & b
D. none of the above

2. Business finance includes ....

A. procurement of funds and utilization of funds
B. management of funds
C. allocation
D. Insurance

3. Funds are required for the ....

A. purchase of land & building
B. purchase of machinery
C. purchase of another fixed asset
D. all of the above

4. The term ----- refers to the part of the profits of a company which is distributed amongst its shareholders

A. Dividend
B. Interest
C. Capital
D. Profit

5. …………….. and …………………. Carry a fixed rate of interest and are to be paid off irrespective of the firm's revenues.

A. Debentures, Dividends
B. Debentures, Bonds
C. Dividends, Bonds
D. Dividends, Treasury Notes

6. The use of long-term fixed interest bearing debt and preference shares along with equity share capital is called as………………

A. Trading on equity

B. Equity capital
C. Capital employed
D. Shareholders fund

7. Reserves and Surplus are which form of financing……….
A. Security Financing
B. Internal Financing
C. Loans Financing
D. International financing

8. Cost of Capital is also known as ……………….
A. Flotation Cost
B. Dividend
C. Required rate of Returned
D. None of the above

9. Cost of Capital for Government securities is also known as …………………
A. Risk Free rate of Interest
B. Maximum Rate of return
C. Rate of interest on Fixed Deposits
D. None of the above

10. Advantage of Debt Financing is…………….
A. Interest is tax-deductible
B. It reduces WACC
C. Does not dilute owners' control
D. All of the above

11. Under the lease agreement, the lessee gets the right to
A. Share profits earned by the lessor
B. Participate in the management of the organisation
C. Use the asset for a specified period
D. Sell the assets

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13. Funds required for purchasing current assets is an example of

A. Fixed capital requirement
B. Ploughing back of profits
C. Working capital requirement
D. Lease financing

14. Funds required for purchasing current assets is an example of

A. Fixed capital requirement
B. Ploughing back of profits
C. Working capital requirement
D. Lease financing

15. The term 'redeemable' is used for

A. Preference shares
B. Commercial paper
C. Equity shares
D. Public deposits

16. Funds required for purchasing current assets is an example of

A. Fixed capital requirement
B. Ploughing back of profits
C. Working capital requirement
D. Lease financing

17. Internal sources of capital are those that are

A. Generated through outsiders such as suppliers
B. Generated through loans from commercial banks
C. Generated through issue of shares
D. Generated within the business

18. A Investment is the

A. net additions made to the nation's capital stocks
B. person's commitment to buy a flat or house
C. employment of funds on assets to earn returns
D. employment of funds on goods and services that are used in production process

19. A company may raise capital from the primary market through _____________.

A. Public issue
B. Rights issue
C. Bought out deals
D. All of the above

20. A fixed rate of _________ is payable on debentures

A. dividend
B. Commission
C. Interest
D. Brokerage

21. Shareholders are :

A. Customers of the Company
B. Owners of the Company
C. Creditors of the Company
D. None of these

22. Advantages of internal finance do NOT include

A. Greater flexibility in the use of finance
B. Greater choice of finance
C. No need to go through administrative procedures
D. Tax concessions for the use of internal profit

23. A loan backed by collateral is called a:

A. line of credit.
B. dividend.
C. secured loan.
D. trade credit.

24. Which of the following is a short-term source of funds

A. issue corporate bonds.
B. factor accounts receivable.
C. issue common stock
D. A & B

25. Debt capital refers to:

A. money raised through the sale of shares.
B. funds raised by borrowing that must be repaid.
C. factoring accounts receivable.
D. inventory loans.

26. A bond backed by the company's real assets is called a:

A. preferred bond.
B. unsecured bond.
C. convertible bond.
D. first mortgage bond.

27. A firm's profit that is distributed to shareholders is called:

A. interest.
B. dividends.
C. discounts.
D. stock certificate.

28. The type of corporate ownership stock that gives owners preference over common shareholders in the payment of dividends and in a claim on assets if the company is liquidated is called:

A. preferred stock.
B. common stock.
C. bondholders.
D. creditors.

29. The market value of a share is responsible for.

A. The investment market
B. The government
C. Shareholders
D. The respective companies

30. Ordinary shares in limited companies:
A. have an unlimited life, and voting rights and receive dividends
B. have an unlimited life, and voting rights but receive no dividends
C. have a limited life, and voting rights and receive dividends
D. have a limited life, with no voting rights but receive dividends

31. External sources of finance do not include:
A. overdrafts
B. leasing
C. debentures
D. retained earnings

32. Internal sources of finance do not include:
A. better management of working capital
B. retained earnings
C. ordinary shares
D. trade credit

33. Dividends are:
A. not allowable for corporation tax
B. paid to lenders
C. not paid to preference shareholders
D. not paid to ordinary shareholder

34. Preference shares:
A. are not part of a company's share capital
B. receive dividends
C. are not allowable for corporation tax
D. have no voting rights

35. A debenture:

A. receives dividend payments
B. does not require security
C. is a short-term loan
D. is a long-term loan

36. Under the terms of a finance lease:

A. legal title to the asset is with the lessee
B. it is cancellable
C. the asset is capitalised in the balance sheet of the lessee
D. the lessor is responsible for service and maintenance of the asset

37. Which is the following is not a method of issuing ordinary shares:

A. issue by tender
B. placing
C. auction
D. intermediary offer

38. Which of the following characteristics are true, with reference to preference capital?

A. Preference dividend is not tax deductible
B. The claim of preference shareholders is prior to the claim of equity shareholders
C. Preference shareholders are not the owners of the concern
D. All of the above

39. What are the factors which make debentures attractive to investors?

A. They enjoy a high order of priority in the event of liquidation
B. Stable rate of return
C. No risk
D. All of the above

40. Which of the following is not a source of long-term finance?

A. Equity shares
B. Preference shares
C. Commercial papers
D. Reserves and surplus

Answer Key														
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
C	A	D	A	B	A	B	C	A	D	C	C	C	A	A
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
D	D	C	D	C	B	D	C	B	B	D	B	A	A	A
31	32	33	34	35	36	37	38	39	40					
D	C	A	D	D	C	C	D	D	C					

Unit 2. Capital Structure:

41. Cost of capital is the _____ required rate of return expected by investors.

A. Fixed
B. Minimum
C. Maximum
D. Variable

42. 2. When a company uses fixed bearing capital and owned capital in raising finance is known as

A. Trading on Equity
B. Operating Leverage
C. Combined Leverage
D. Cost of Capital

43. CAPM model was developed by ________________________

A. William Sharpe & John Linter
B. Modigliani Miller
C. Gerstenberg
D. James & Walter**.**

44. The tax savings of the firm derived from the deductibility of interest expense is called the:

A. interest tax shield.
B. depreciable basis.
C. financing umbrella.
D. current yield.
E. tax-loss carryforward savings**.**

45. The unlevered cost of capital is:

A. the cost of capital for a firm with no equity in its capital structure.
B. the cost of capital for a firm with no debt in its capital structure.
C. the interest tax shield times pretax net income.
D. the cost of preferred stock for a firm with equal parts debt and common stock in its capital structure.
E. equal to the profit margin for a firm with some debt in its capital structure.

46. The cost of capital for a firm, WACC, in a zero tax environment is:

A. equal to the expected earnings divided by market value of the unlevered firm.
B. equal to the rate of return for that business risk class.
C. equal to the overall rate of return required on the levered firm.
D. is constant regardless of the amount of leverage.
E. All of the above.

47. The difference between a market value balance sheet and a book value balance sheet is that a market value balance sheet:

A. places assets on the right hand side.
B. places liabilities on the left hand side.
C. does not equate the right hand with the left hand side.
D. lists items in terms of market values, not historical costs.
E. uses the market rate of return.

48. The firm's capital structure refers to:

A. the way a firm invests its assets.
B. the amount of capital in the firm.
C. the amount of dividends a firm pays.
D. the mix of debt and equity used to finance the firm's assets.
E. how much cash the firm holds.

49. A general rule for managers to follow is to set the firm's capital structure such that:

A. the firm's value is minimized.
B. the firm's value is maximized.
C. the firm's bondholders are made well off.
D. the firms suppliers of raw materials are satisfied.
E. the firms dividend payout is maximized**.**

50. A levered firm is a company that has:

A. Accounts Payable as the only liability on the balance sheet.
B. has some debt in the capital structure.
C. has all equity in the capital structure.
D. All of the above.
E. None of the above.

51. A manager should attempt to maximize the value of the firm by:

A. changing the capital structure if and only if the value of the firm increases.

B. changing the capital structure if and only if the value of the firm increases to the benefits to inside management.

C. changing the capital structure if and only if the value of the firm increases only to the benefits the debtholders.

D. changing the capital structure if and only if the value of the firm increases although it decreases the stockholders' value.

E. changing the capital structure if and only if the value of the firm increases and stockholder wealth is constant.

52. The effect of financial leverage depends on the operating earnings of the company. Which of the following is not true?

A. Below the indifference or break-even point in EBIT the non-levered structure is superior.

B. Financial leverage increases the slope of the EPS line.

C. Above the indifference or break-even point the increase in EPS for all equity plans is less than debt-equity plans.

D. Above the indifference or break-even point the increase in EPS for all equity plans is greater than debt-equity plans.

E. The rate of return on operating assets is unaffected by leverage.

53. Composition of capital means.

A. Caputal Structure

B. Cost of Capital

C. Financial Leverge

D. Captal Budgeting

54. Which of the following factor affect the Capital Structure.

A. Nature of Business

B. Rumors in the market

C. Capital Reduction

D. Liquidation

55. A firm should select the capital structure which:

A. produces the highest cost of capital.

B. maximizes the value of the firm.

C. minimizes taxes.

D. is fully unlevered.

E. has no debt.

56. A firm's overall cost of capital:

A. varies inversely with its cost of debt.

B. is unaffected by changes in the tax rate.

C. is another term for the firm s internal rate of return.

D. is the same as the firm s return on equity.

E. is the required return on the total assets of a firm.

57. Which one of the following represents the best estimate for a firm's pre-tax cost of debt?

A. the current yield-to-maturity on the firm's existing debt

B. the firm's historical cost of capital

C. twice the rate of return currently offered on risk-free securities

D. the current coupon on the firm's existing debt

E. the current yield on the firm's existing debt

58. An increase in the market value of a preferred stock will _____ the cost of preferred stock.

A. increase

B. not affect

C. either increase or decrease

D. either not affect or increase

E. decrease

59. Which one of the following is a correct statement regarding a firm's weighted average cost of capital (WACC)?

A. An increase in the market risk premium will tend to decrease a firm's WACC.

B. A reduction in the risk level of a firm will tend to increase the firm's WACC.

C. A 5 percent increase in a firm's debt-equity ratio will tend to increase the firm's WACC.

D. The WACC can be used as the required return for all new projects with similar risk to that of the existing firm.

E. The WACC will decrease when the tax rate decreases for all firms that utilize debt financing.

60. The rate of return on its existing assets that a firm must earn to maintain the current value of the firm's stock is called the:

A. return on equity.

B. internal rate of return.

C. weighted average cost of capital.

D. weighted average cost of equity.

E. current yield.

61. The cost of common stock is 14% and the bond risk premium is 9% then the bond yield will be

A. 0.0156
B. 0.05
C. 0.23
D. 0.6428

62. In weighted average cost of capital, a company can affect its capital cost through

A. policy of capital structure
B. policy of dividends
C. policy of investment
D. all of the above

63. A risk associated with the project and the way considered by well diversified stockholder is classified as
A. expected risk
B. beta risk
C. industry risk
D. returning risk

64. The cost of common stock is 13% and the bond risk premium is 5% then the bond yield would be
A. 18
B. 0.026
C. 0.08
D. 0.18

65. The cost of capital is equal to required return rate on equity in the case if investors are only
A. valuation manager
B. common stockholders
C. asset seller
D. equity dealer

66. The interest rate is 12% and the tax savings (1-0.40) then the after-tax component cost of debt will be

A. 0.072
B. 7.2 times
C. 17.14 times
D. 17.14

67. The method uses for an estimation of cost of equity is classified as
A. market cash flow
B. future cash flow method
C. discounted cash flow method
D. present cash flow method

68. The stock selling price is $45, an expected dividend is $10 and an expected growth rate is 8% then cost of common stock would be
A. 55
B. 58
C. 53
D. 0.3022

69. The dividend per share is $18 and sell it for $122 and floatation cost is $4 then the component cost of preferred stock will be
A. 0.1525
B. 0.1525 times
C. 15.25
D. 0.001525

70. The interest rates, tax rates and market risk premium are the factors which an/a
A. industry cannot control
B. industry cannot control
C. firm must control
D. firm cannot control

71. If the payout ratio is 0.45 then the retention ratio will be

A. 0.55
B. 1.45
C. 1.82
D. 0.45

72. The stock selling price is $35, expected dividend is $5 and expected growth rate is 8% then cost of common stock would be

A. 40
B. 0.2229
C. 0.1428
D. 80

73. The preferred dividend is divided by preferred stock price multiply by (1-floatation cost) is used to calculate

A. transaction cost of preferred stock
B. financing of preferred stock
C. weighted cost of capital
D. component cost of preferred stock

74. The stock selling price is $65, expected dividend is $20 and cost of common stock is 42% then expected growth rate will be

A. 0.1123 times
B. 0.1123
C. 11.23 times
D. 11.23

75. In weighted average cost of capital, the rising in interest rate leads to

A. increase in cost of debt
B. increase the capital structure
C. decrease in cost of debt
D. decrease the capital structure

76. The measure of business risk is __________.

A. operating leverage
B. financial leverage
C. total leverage
D. working capital leverage

77. _________ is the most important investment decision because it determines the risk-return characteristics of the portfolio.

A. Hedging
B. Market timing
C. Performance measurement
D. Asset allocation

78. Which of the following costs would be considered a fixed cost?

A. Raw materials.
B. Depreciation.
C. Bad-debt losses.
D. Production labor.

79. Lower financial leverage is related to the use of additional __________.

A. fixed costs
B. variable costs
C. debt financing
D. common equity financing

80. Operating leverage examines.

A. The effect of the change in the quantity on EBIT
B. The effect of the change in EBIT on the EPS of the company
C. The effect of the change in output to the EPS of the company
D. The effect of change in EPS on the output of the company

81. Which of the following is the expression for operating leverage?

A. Contribution/EBIT
B. EBT/Contribution
C. Contribution/EAT
D. Contribution/Quantity

82. The Degree of Financial Leverage (DFL)

A. Measures financial risk of the firm

B. Is zero at financial break-even point

C. Increases as EBIT increases

D. Both a and b

83.

84.

85.

Answer Key														
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55
B	A	A	A	B	E	D	D	B	B	A	D	A	A	B
56	57	58	59	60	61	62	63	64	65	66	67	68	69	70
E	A	E	D	C	B	D	B	C	B	A	C	D	A	D
71	72	73	74	75	76	77	78	79	80	81	82	83	84	85
A	B	D	B	A	A	D	B	A	A	A	A			

Unit 3 Capital Budgeting:

86. A project whose cash flows are more than the capital invested for rate of return then the net present value will be

A. positive
B. independent
C. negative
D. zero

87. In the mutually exclusive projects, the project which is selected for comparison with others must have

A. higher net present value
B. lower net present value
C. zero net present value
D. all of the above

88. The relationship between Economic Value Added (EVA) and the Net Present Value (NPV) is considered as

A. valued relationship
B. economic relationship
C. direct relationship
D. inverse relationship

89. In capital budgeting, the positive net present value results in

A. negative economic value added
B. positive economic value added
C. zero economic value added
D. percent economic value added

90. An uncovered cost at the start of year is divided by full cash flow during recovery year then added in prior years to full recovery for calculating

A. original period
B. investment period
C. payback period
D. forecasted period

91. In calculation of net cash flow, the depreciation and amortization are treated as

A. current liabilities
B. income expenses
C. non-cash revenues
D. non-cash charges

92. In the time value of money, the nominal rate is

A. not shown on timeline
B. shown on timeline
C. multiplied on timeline
D. divided on timeline

93. Capital Budgeting is a part of:

A. Investment Decision
B. Working Capital Management
C. Marketing Management
D. Capital Structure

94. Capital Budgeting deals with:

A. Long-term Decisions
B. Short-term Decisions
C. Both (a) and (b)
D. Neither (a) nor (b)

95. Which of the following is not used in Capital Budgeting?

A. Time Value of Money
B. Sensitivity Analysis
C. Net Assets Method
D. Cash Flows

96. **Capital Budgeting Decisions are:**
   A. Reversible
   B. Irreversible
   C. Unimportant
   D. All of the above

97. **Which of the following is not incorporated in Capital Budgeting?**
   A. Tax-Effect
   B. Time Value of Money
   C. Required Rate of Return
   D. Rate of Cash Discount

98. **Which of the following is not a capital budgeting decision?**
   A. Expansion Programme
   B. Merger
   C. Replacement of an Asset
   D. Inventory Level

99. **A sound Capital Budgeting technique is based on:**
   A. Cash Flows
   B. Accounting Profit
   C. Interest Rate on Borrowings
   D. Last Dividend Paid

100. **Which of the following is not followed in capital budgeting?**
A. Cash flows Principle
B. Interest Exclusion Principle
C. Accrual Principle
D. Post-tax Principle

101. **Depreciation is incorporated in cash flows because it:**
A. Is unavoidable cost
B. Is a cash flow
C. Reduces Tax liability
D. Involves an outflow

102. Which of the following is not applied in capital budgeting?

A. Cash flows be calculated in incremental terms
B. All costs and benefits are measured on cash basis
C. All accrued costs and revenues be incorporated
D. All benefits are measured on after-tax basis.

103. Evaluation of Capital Budgeting Proposals is based on Cash Flows because:

A. Cash Flows are easy to calculate
B. Cash Flows are suggested by SEBI
C. Cash is more important than profit
D. None of the above

104. A proposal is not a Capital Budgeting proposal if it:

A. is related to Fixed Assets
B. brings long-term benefits
C. brings short-term benefits only
D. has very large investment

105. Risk in Capital budgeting implies that the decision-maker knows___________of the cash flows.

A. Variability
B. Probability
C. Certainty
D. None of the above

106. The span of time within which the investment made for the project will be recovered by the net returns of the project is known as

A. Period of return
B. Payback period
C. Span of return
D. None of the above

107. Projects with __________ are preferred

A. Lower payback period
B. Normal payback period
C. Higher payback period
D. Any of the above

108. ___________ on capital is called 'Cost of capital'.

A. Lower expected return
B. Normally expected return
C. Higher expected return
D. None of the above

109. The values of the future net incomes discounted by the cost of capital are called

A. Average capital cost
B. Discounted capital cost
C. Net capital cost
D. Net present values

110. Under Net present value criterion, a project is approved if

A. Its net present value is positive
B. The funds are unlimited
C. Both (A) and (B)
D. None of the above

111. The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have

A. IRR equal to the cost of capital
B. IRR greater than the cost of capital
C. IRR less than the cost of capital
D. None of the above

112. Which of the following criterion is often preferred

A. Net present value
B. Profitability index
C. Internal Rate of Return
D. All of the above

113. Where capital availability is unlimited and the projects are not mutually exclusive, for the same cost of capital, following criterion is used

A. Net present value
B. Internal Rate of Return
C. Profitability Index
D. Any of the above

114. A project is accepted when

A. Net present value is greater than zero
B. Internal Rate of Return will be greater than cost of capital
C. Profitability index will be greater than unity
D. Any of the above

115. With limited finance and a number of project proposals at hand, select that package of projects which has

i. The maximum net present value
ii. Internal rate of return is greater than cost of capital
iii. Profitability index is greater than unity
iv. Any of the above

116. project may be regarded as high risk project when

A. It has smaller variance of outcome but a high initial investment
B. It has larger variance of outcome and high initial investment
C. It has smaller variance of outcome and a low initial investment
D. It has larger variance of outcome and low initial investment

117. ____________ of a project is the sum of all present values of all cash inflows minus present value of outflows?

A. Pay Back Period
B. Internal Rate of Return
C. Benefit Cost Ratio
D. NPV

118. If you have to judge a project from its NPV, you will select the one with the______________?

A. Highest NPV
B. Lowest NPV
C. NPV cannot judge the project
D. Information is not enough

119. Criteria that measures how quickly project will return its original investment is?

A. Accounting rate of return
B. Payback period
C. Internal rate of return
D. Benefit cost ratio

120. Capital budgeting is the process of identifying analyzing and selecting investments project whose returns are expected to extend beyond ____________________?

A. 3 years
B. 2 years
C. 1 year
D. Months

121. Criterion for IRR (Internal Rate of Return)?

A. Accept IRR > Cost of capital
B. Accept IRR < Cost of capital
C. Accept IRR = Cost of capital
D. none of the above

122. Process that involves decision making with respect to investment in fixed asset?

A. Valuation
B. Breakeven analysis
C. Capital budgeting
D. Material management decision

123. Decision criterion with respect to profitability index to accept project if?

A. Profitability index is equal to or less than 1
B. Profitability index is greater than 1
C. Profitability index is less than or equal to 1
D. Profitability index is greater than 10

124. A project costs $16,000.The estimated annual cash inflows during its 3 year life are $8,000, $7,000 and $6,000 respectively. What will be the pay-back period?

A. 2 years
B. 2.5 years
C. 3 years
D. 4 years

125. A profitability index (PI) of .92 for a project means that __________.

A. the project's costs (cash outlay) are (is) less than the present value of the project's benefits
B. the project's NPV is greater than zero
C. the project's NPV is greater than 1
D. the project returns 92 cents in present value for each current dollar invested (cost)

126.
127.
128.
129.
130.

Answer Key														
86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
A	A	B	B	C	D	A	A	C	B	D	D	A	C	C
101	102	103	104	105	106	107	108	109	110	111	112	113	114	115
C	C	C	B	B	A	B	D	C	B	C	C	D	D	A
116	117	118	119	120	121	122	123	124	125	126	127	128	129	130
A	D	A	B	C	A	C	B	B	A					

Unit 4 Specialized Private Financial Institutions

131. 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

132. _____ is basically a savings and investment corporation.

A. UTI
B. IDBI
C. SBI
D. RBI

133. When was the Industrial Finance Corporation of India setup in India?

A. 1945
B. 1948
C. 1951
D. 1991

134. CRISIL has been promoted by ____ and _____.

A. ICICI, UTI
B. IDBI, SBI
C. AXIS, UTI
D. PNB, SBI

135. **Which one of the following is the main objective of Unit Trust of India**?

A. To mobilize the savings of high income groups.
B. To mobilize the savings to low and high income groups.
C. To mobilize the savings of corporates.
D. To mobilize the savings of low and middle income groups.

136. Which one of the following is the largest mutual fund organisation in India?

A. SBI Mutual Fund
B. Ind Bank Mutual Fund
C. Unit Trust of India
D. GIC Mutual Fund

137. In which of the following cities is the headquarters of the Unit Trust of India located?
A. Kolkata
B. Mumbai
C. New Delhi
D. Chennai

138. The ICICI has been established to achieve the objectives
A. to assist in the formation, expansion and modernisation of industrial units in the private sector.
B. to stimulate and promote the participation of private capital (both Indian and foreign) in such industrial units
C. Both (a) and (b)
D. None of these

139. The functions of SFCs include

A. Grant of loans and advances to or subscribe to debentures of industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of industrial concern.
B. Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.
C. Both (a) and (b)
D. None of these

140. The main objective of IDBI is to

A. Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI, ICICI, UTI, LIC, Commercial Banks and SFCs.
B. Supplementing the sources of other financial institution and thereby widening the scope of their assistance.
C. Planning, promotion and development of key industries and diversifications of industrial growth.
D. All of the above

141. The main functions of UTI are

A. To mobilise the savings of the community through sale of units.
B. To invest the savings so mobilised in corporate securities such as shares and debentures etc.
C. To serve unit holders along the length and breadth of the country.
D. All of the above

142. The main functions of IFCI are -

(i) Granting loans and advances for the establishment, expansion diversification and modernisation of industries in

corporate and co-operative sectors.

(ii) Guaranteeing loans raised by industrial concerns in the capital market, both in rupees and foreign currencies.

(iii) Subscribing or underwriting the issue of shares and debentures by industries. Such investment can be held up to 7 years.

(iv) Guaranteeing credit purchase of capital goods imported as well as purchased within the country

A. (I) and (ii)
B. (iii), (iv), and (ii)
C. (i), (ii), and (iii)
D. (i), (ii), (iii) and (iv)

143. The primary objective of IDBI is to -------- Regulate and Supervise the working of other financial institutions like IFCI, SFCs, UTI.

A. Co-ordinate
B. Control
C. Planning
D. None of these

144. All India financial Institutions are

A. Industrial Development Bank of India (IDBI)
B. Industrial Finance Corporation of India (IFCI)
C. Industrial Credit and Investment Corporation of India (ICICI)
D. All of the above

145. The IDBI underwrites and -------------- the shares and debentures of industrial concerns.
A. imposes on
B. subscribes to
C. targets
D. none of these

146. The IDBI can grant a ------------ and advances to other financial institutions.
A. Line of credit
B. Loans
C. Both (a) and (b)
D. None of these

147. Industrial Development Bank of India is
A. Wholly-owned Government of India undertaking
B. Wholly-owned subsidiary of Reserve Bank of India
C. A corporation and owned by Government of India and public sector banks.
D. Public Limited Company

148. The IDBI was established in
A. 1964
B. 1965
C. 1966
D. 1967

149. The UTI was established in
A. 1962
B. 1963
C. 1964

D. 1965

150. The financial institute IFCI established in

A. 1947

B. 1948

C. 1949

D. 1950

151. Which one among the following has not started commercial banking ?

A. SIDBI

B. IDBI

C. ICICI

D. UTI

152. **The merger of _________and ________was the first M and A activity after liberalization**.

A. Times Bank and HDFC Bank

B. New Bank of India and Punjab National Bank

C. ICICI and ICICI Bank

D. GTB and Oriental Bank of Commerce

153. The first financial institution set up in India

A. IDBI

B. ICICI

C. IRBI

D. IFCI

154. SIDBI was set up in ___ as a wholly owned subsidiary of

A. 1985 - EXIM

B. 1969 - RRBI

C. 1975 - IFCI

D. 1990 – IDBI

155. Which of the following entities provide "Take out Finance" to banks engaged in financing of infrastructure project?

A. ICICI
B. SIDBI
C. IDFC
D. RBI

156. ICICI stands for:

A. Indian Credit and Investment Corporation of India
B. Investment Corporation In Credit
C. Industrial Credit Investment Corporation of India
D. None of These

157. **ICICI was formed in 1955 at the initiative of**:

A. World Bank
B. The Government of India
C. Representatives of Indian Industry
D. All of the Above
E. None of These

158. The principal objective was to create a development financial institution for providing ______project financing to Indian businesses:

A. Medium Term
B. Long Term
C. Medium Term and Long Term
D. None of These

159. The bank which refinance the loans given to poor and weaker sections to construct or buy houses is:

A. SIDBI
B. SBI
C. NHB
D. None of These

160. Financial Inclusion is:

A. Delivery of banking services at an affordable cost to weaker sections

B. Delivery of financial services at an affordable cost to weaker sections

C. Social responsibility of banking and government system

D. All of Above

E. None of These

Answer Key														
131	132	133	134	135	136	137	138	139	140	141	142	143	144	145
B	A	C	A	D	C	B	C	C	D	D	D	A	D	B
146	147	148	149	150	151	152	153	154	155	156	157	158	159	160
C	A	A	B	B	A	C	D	D	C	A	D	C	C	D

Unit 5 Dividend Decisions:

161. Which of the following examples best represents a passive dividend policy?

A. The firm sets a policy such that the proportion of dividends paid from net income remains constant.

B. The firm pays dividends with what remains of net income after taking acceptable investment projects.

C. The firm sets a policy such that the quantity (dollar amount per share) of dividends paid from net income remains constant.

D. All of the above are examples of various types of passive dividend policies.

162. Modigliani and Miller argue that the dividend decision __________.

A. is irrelevant as the value of the firm is based on the earning power of its assets

B. is relevant as the value of the firm is not based just on the earning power of its assets

C. is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway

D. is relevant as cash outflow always influences other firm decisions

163. The residual theory of dividends suggests that dividends are _________ to the value of the firm.

A. residual

B. relevant

C. irrelevant

D. integra

164. According to the residual theory of dividends, If the firm's equity need exceeds the amount of retained earnings, the firm would

A. borrow to pay the cash dividend.

B. sell additional stock to pay the cash dividend.

C. pay no cash dividends.

D. not need to consider its dividend policy.

165. According to the residual theory of dividends, if the firm's equity need is less than the amount of retained earnings, the firm would

A. borrow to pay the cash dividend.
B. declare a dividend equal to the remaining balance.
C. pay no cash dividends.
D. not need to consider its dividend policy.

166. The clientele effect refers to

A. the relevance of dividend policy on share value.
B. the firm's ability to attract stockholders whose dividend preferences are similar to the firm's dividend policy.
C. the informational content of dividends.
D. the "bird-in-the-hand" argument.

167. Modigliani and Miller suggest that the value of the firm is not affected by the firm's dividend policy, due to

A. the relevance of dividends.
B. the clientele effect.
C. the informational content.
D. the optimal capital structure.

168. Modigliani and Miller, recognizing that dividends do somehow affect stock prices, suggest that positive effects of dividend increases are attributable

A. directly to the dividend policy.
B. directly to the optimal capital structure.
C. not to the informational content but to the consistency in the payment of dividends.
D. not to the dividend itself but to the informational content of the dividends with respect to future earnings.

169. Modigliani and Miller argue that when the firm has no acceptable investment opportunities, it should

A. close its doors.
B. distribute the unneeded funds to the owners.
C. lower its cost of capital.
D. retain the funds until an acceptable project arises.

170. Gordon's "bird-in-the-hand" argument suggests that

A. dividends are irrelevant.
B. firms should have a 100 percent payout policy.
C. shareholders are generally risk averse and attach less risk to current dividends.
D. the market value of the firm is unaffected by dividend policy.

171. Proponents of the dividend irrelevance theory argue that, all else being equal, an investor's required return and the value of the firm are unaffected by dividend policy, for all of the following reasons, EXCEPT

A. the firm's value is determined solely by the earning power and risk of its assets.
B. investor's are generally risk averse and attach less risk to current as opposed to future dividends or capital gains.
C. if dividends do affect value, they do so solely because of their information content, which signals managements' earnings expectations.
D. a clientele effect exists which causes a firm's shareholders to receive the dividends that they expect.

172. The factors involved in setting a dividend policy include all of the following EXCEPT

A. restrictive covenants in a bond indenture.
B. growth prospects.
C. the legal prohibition on paying dividends which exceed current earnings.
D. capital impairment restrictions.

173. The dividend policy must be formulated considering two basic objectives, namely

A. delaying the tax liability of the stockholder and information content.
B. maximizing shareholder wealth and delaying the tax liability of the stockholder.
C. maximizing shareholder wealth and providing for sufficient financing.
D. maintaining liquidity and minimizing the weighted average cost of capital.

174. The problem with a constant-payout-ratio dividend policy from the shareholder's perspective is that

A. it bores the shareholders.
B. if the firm's earnings drop, so does the dividend payment.
C. even when earnings are low, the company must pay a fixed dividend.
D. there is no informational content.

175. The problem with the regular dividend policy from the firm's perspective is that

A. it bores the shareholders.
B. if the firm's earnings drop, so does the dividend payment.
C. even when earnings are low, the company must pay a fixed dividend.
D. it increases the shareholders' uncertainty.

176. **The advantage of using the low-regular-and-extra dividend policy is that**

A. the firm avoids giving the shareholders false hopes.
B. if the firm's earning drop, so does the dividend payment.
C. the extra dividend may become a regular event.
D. cyclical shifts in earnings may be avoided

177. Retained earnings are

A. an indication of a company's liquidity.
B. the same as cash in the bank.
C. not important when determining dividends.
D. the cumulative earnings of the company after dividends.

178. Which of the following is an argument for the relevance of dividends?

A. Informational content.
B. Reduction of uncertainty.
C. Some investors' preference for current income.
D. All of the above.

179. All of the following are true of stock splits EXCEPT:

A. market price per share is reduced after the split.
B. the number of outstanding shares is increased.
C. retained earnings are changed.
D. proportional ownership is unchanged.

180. If an individual stockholder reinvests dividends under a company's dividend reinvestment plan, the reinvested dividends are

A. not taxable to the shareholder.
B. taxable to the shareholder.

181. The dividend-payout ratio is equal to

A. the dividend yield plus the capital gains yield.
B. dividends per share divided by earnings per share.
C. dividends per share divided by par value per share.
D. dividends per share divided by current price per share.

182. Investors may be willing to pay a premium for stable dividends because of the informational content of __________, the desire of investors for __________, and certain __________.

A. institutional considerations; dividends; current income.
B. dividends; current income; institutional considerations.
C. current income; dividends; institutional considerations.
D. institutional considerations; current income; dividends.

183. __________ is a payment of additional shares to shareholders in lieu of cash.

A. stock split
B. stock dividend
C. extra dividend
D. regular dividend

184. A __________ occurs when there is an increase in the number of shares outstanding by reducing the par value of stock.

A. stock split
B. stock dividend
C. extra dividend
D. regular dividend

185. A__________ is the expected cash dividend that is normally paid to shareholders.

A. stock split
B. stock dividend
C. extra dividend
D. regular dividend

186. __________ is a nonrecurring dividend paid to shareholders in addition to the regular dividend.

A. A stock split
B. A stock dividend
C. An extra dividend
D. A regular dividend

187. A dividend reinvestment plan (DRIP) is __________.

A. an optional plan, provided by brokerage firms, allowing shareholders to automatically reinvest dividend payments in additional shares of the firm's stock.
B. an optional plan, provided by large corporate firms, allowing shareholders to automatically reinvest dividend payments in additional shares of the firm's stock.
C. a mandatory plan, provided by brokerage firms, where shareholders are automatically reinvesting dividend payments in additional shares of the firm's stock at a reduced price.
D. a mandatory plan, provided by large corporate firms, where shareholders are automatically reinvesting dividend payments in additional shares of the firm's stock at a reduced price.

188. When dividend payable either in cash or stock at the option of the shareholders is called_______ dividend.

A. Optional
B. script
C. bond
D. property

189. Some company may pay dividend in the form of asset that it is holing and which is superfluous for it is called ____________ dividend.

A. Optional
B. script
C. bond
D. property

190. When the firm does not pay out fixed dividend regularly, it is _____ dividend policy.

A. Irregular
B. regular
C. No immediate
D. Liberal

191. Where a dividend has been declared by a company, it has to be paid within ___ days from the date of declaration.

A. 30
B. 45
C. 50
D. 5

192. When money transferred to the unpaid dividend account of a company, which remains unpaid or unclaimed for a period of ___ years, shall be transferred by the company to "Investor education and protection Fund"

A. 7
B. 8
C. 2
D. 4

193. **Dividend Payout Ratio is**:

A. PAT Capital
B. DPS ÷ EPS
C. Pref. Dividend ÷ PAT
D. Pref. Dividend ÷ Equity Dividend

194. Dividends received by an Indian Companies from specified foreign companies is subject to tax at the rate :

A. 15%
B. 30%
C. Exempt
D. 20%

195. Deduction under the Provision of Income Tax Act, 1961 shall be allowed in respect of Dividend income or DDT to

A. The company
B. Shareholders
C. Both of the above
D. None of the above

196. Dividend Distribution Tax is payable by

A. Shareholders to Government
B. Shareholders to Company,
C. Company to Government,
D. Holding to Subsidiary Company

197. Shares of face value of 10 are 80% paid up. The company declares a dividend of 50%. Amount of dividend per share is

A. 5
B. 4
C. 80
D. 50

198. Which of the following generally not result in increase in total dividend liability ?

A. Share-split
B. Right Issue
C. Bonus Issue
D. All of the above

199. Dividends are paid out of

A. Accumulated Profits
B. Gross Profit
C. Profit after Tax
D. General Reserve

200. Every company should follow

A. High Dividend Payment
B. Low Dividend Payment
C. Stable Dividend Payment
D. Fixed Dividend Payment

Answer Key														
161	162	163	164	165	166	167	168	169	170	171	172	173	174	175
C	A	C	C	B	B	B	D	B	C	B	C	C	B	C
176	177	178	179	180	181	182	183	184	185	186	187	188	189	190
A	D	D	C	B	B	B	A	D	C	B	A	D	A	A
191	192	193	194	195	196	197	198	199	200					
A	A	B	A	D	C	B	A	C	C					