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**PRESIDENCY UNIVERSITY
BENGALURU**

SCHOOL OF COMMERCE

TEST 1

Winter Semester: 2021 - 22

Course Code: BFS 109

Course Name: Debt Market and Mutual Funds

Program & Sem: B.Com (Professional/Honors) & VI Sem

Date: 26th April 2022

Time: 11:30 AM to 12:30 PM

Max Marks: 30

Weightage: 15%

Instructions:

- (i) Read the all questions carefully and answer accordingly.
(ii) All the questions are compulsory

Part A [Memory Recall Questions]

Answer all the Questions. Each question carries ONE mark.

(10Qx 1M= 10M)

Q.NO. 1. Secondary market is the market where the financial instruments are issued for the first time by: (C.O.No.1) [Knowledge]

- (A) Public issues (B) Private placement (C) Right issues (D) None of the above

Q.NO. 2. While corporate papers carry risks such as credit risk, interest rate risk, settlement risk and liquidity risk due to changing business conditions, government securities are perceived to have _____ (C.O.No.1) [Knowledge]

- (A) zero credit risk (B) risk free securities (C) Both A & B (D) None of the above

Q.NO. 3. The buyer (of bond) is giving the seller a loan at a fixed interest rate, which equals to the _____ (C.O.No.1) [Knowledge]

- (A) Simple rate (B) Compound rate (C) Coupon rate (D) Market rate

Q.NO. 4. The risk that is emerging from an adverse change in the interest rate prevalent in the market so as to affect the yield on the existing instruments is called as _____.

(C.O.No.1) [Knowledge]

- (A) Reinvestment interest rate risk (B) Interest rate risk (C) Counter party risk (D) Price risk

Q.NO. 5. The probability of a fall in the interest rate resulting in a lack of options to invest the interest received at regular intervals at higher rates at comparable rates in the market is called as _____ (C.O.No.1) [Knowledge]

- (A) Default risk (B) Interest rate risk (C) Counter party risk (D) Reinvestment interest rate risk

Q.NO. 6. The Clearing Corporation of India Ltd. (CCIL) was set up in April, 2001 to provide guaranteed clearing and settlement functions for transactions in (select the correct combination):

(C.O.No.2) [Knowledge]

- (A) Money, G-Secs, Foreign Exchange and Derivative markets
(B) Capital, G-Secs, Foreign Exchange and Derivative markets
(C) primary, G-Secs, Foreign Exchange and Derivative markets
(D) secondary, G-Secs, Foreign Exchange and Derivative markets

Q.NO. 7. The Reserve Bank of India has discontinued the 7.75% Savings (Taxable) Bonds scheme, 2018, citing the _____ as a key reason for the withdrawal of the scheme.

(C.O.No.2) [Knowledge]

- (A) rising reinvestment interest rates (B) declining reinvestment interest rates
(C) declining interest rates (D) rising interest rates

Q.NO. 8. Treasury Inflation-Protected Securities (TIPS) are available based on 5-, 10- or 30-year term periods, the value of which will increase gradually to match up with the _____ to keep the bond's principle on track with inflation.

(C.O.No.2) [Knowledge]

- (A) Consumer Price Index (B) Whole-sale Price Index (C) Indexation (D) None of the above

Q.NO. 9. In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as _____, to meet the temporary mismatches in the cash flow of the Government of India(A)

(C.O.No.2) [Knowledge]

- (A) Non-commercial Bills (B) Commercial Bills (C) Treasury Bills (D) Cash Management Bills

Q.NO. 10. Consider the following example: a 91-day government security of ₹100/- (face value) may be issued at say ₹ 98.20, that is, at a discount of say, ₹1.80 and would be redeemed at the face value of ₹100/-. The security is an example for:

(C.O.No.1) [Knowledge]

- A. Commercial Paper (B) Treasury bill (C) Secured Premium Notes (D) Cash Management Bills

Part B [Thought Provoking Questions]

Answer both the Questions. Each question carries FIVE marks.

(2Qx5M=10M)

Q.NO. 1. Briefly explain the open market operations mechanism adopted by Reserve bank of India to manage the liquidity issues in the economy.

(C.O.No.2) [Comprehension]

Q.NO. 2. Point out the differences between the government bond and the corporate bond. Suggest the investment opportunities to a risk-averse investor who is looking for return as well as security of the principal to be invested.

(C.O.No.2) [Comprehension]

Part C [Problem Solving Questions]

Answer the Question. Question carries TEN marks.

(1Qx10M=10M)

Q.NO. 1. Aleena wants to invest in some funds but she is unsure about the types of funds available. She wants to explore different forms of funds available. She has a low-risk appetite and would prefer investing in funds that can guaranteed returns on the invested amount. She is confused between the debt and the equity funds that have different categories. Aleena is requesting you kindly highlight the types of debt fund schemes available to help her understand the nuances of investing in the debt mutual funds better.

(C.O.No. 1) [Application]



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**PRESIDENCY UNIVERSITY
BENGALURU**

SCHOOL OF COMMERCE

TEST 2

Winter Semester: 2021 - 22

Course Code: BFS109

Course Name: Debt Market and Mutual Funds

Program & Sem: B.Com (Professional/Honors)/6th Sem

Date: 01-06-2022

Time: 11:30 AM to 12:30 PM

Max Marks: 30

Weightage: 15%

Instructions:

(i) Read the all questions carefully and answer accordingly.

(ii) All the questions are compulsory

Part A [Memory Recall Questions]

Answer all the Questions. Each question carries ONE mark.

(10Qx 1M= 10M)

- If the issuer of bond is rated as _____, the company's debt is considered lower risk, resulting in lower interest rates. (C.O.No.2) [Knowledge]
(A) speculative grade (B) non-investment grade (C) investment grade (D) High yield
- A _____ indicates the issuer's ability to undertake a certain load and its ability to honor the terms and conditions of the loan, including the interest rate and dates of repayment. (C.O.No.2) [Knowledge]
(A) creditor score (B) risk free security (C) Both A & B (D) None of the above
- Bond portfolio management strategies are based on managing _____ income investments in pursuit of maximizing return on investment by minimizing risk and managing interest rates. (C.O.No.2) [Knowledge]
(A) flexible (B) systematic (C) fixed (D) unsystematic
- Credit rating is a measure of credit risk only and hence it does not communicate anything about the degree of _____. (C.O.No.2) [Knowledge]
(A) business risk (B) market risk (C) counter party risk (D) default risk
- The Asset Management Company's Board of Directors must have at least _____ of Directors who are independent directors. (C.O.No.3) [Knowledge]
(A) 40% (B) 30% (C) 50% (D) 60%
- While a mutual fund's portfolio manager makes trading decisions, the securities owned by the fund are held with the _____ and not directly with the fund itself. (C.O.No.3) [Knowledge]
(A) custodian (B) sponsor (C) trustee (D) RTA
- The MF should appoint a custodian to carry out the custodial services for the scheme & send intimation of the same to SEBI within _____ of the appointment. (C.O.No.3) [Knowledge]
(A) 5 days (B) 25 days (C) 55 days (D) 15 days

8. The sponsor who thinks of starting a mutual fund, has to contribute _____ of the net worth of AMC. (C.O.No.3) [Knowledge]
(A) 40 per cent (B) 30 per cent (C) 20 per cent (D) 10 per cent
9. _____ are funds in which units can be purchased only during the initial offer period. (C.O.No.3) [Knowledge]
(A) Open-ended funds (B) hybrid funds (C) Indexed funds (D) Closed-ended funds
10. As per the current SEBI Mutual Fund categorization, equity mutual funds are mandated to invest at least _____ of their total assets in equity- and equity-related instruments. (C.O.No.3) [Knowledge]
A. 45% (B) 55% (C) 65% (D) 75%

Part B [Thought Provoking Questions]

Answer all the Questions. Each question carries FIVE marks. (2Qx5M=10M)

11. The Kotak Ltd. wants to incorporate itself as an Asset Management Company (AMC) with SEBI. The company is seeking your expertise to brief it the eligibility criteria for registering as an AMC in India. (C.O.No.3) [Comprehension]
12. Point out the differences between an open-ended and a closed ended mutual fund. Suggest the ideal investment option (open-ended vs. closed ended) for those investors who are looking for investment in mutual funds along with liquidity. (C.O.No.3) [Comprehension]

Part C [Problem Solving Questions]

Answer the Question. The question carries TEN marks. (1Qx10M=10M)

13. Ritika, an ad film producer wants to invest in mutual funds. However, she is concerned about the regulation and proper governance of her investment. She came across the fact that the mutual funds are regulated by the Securities and Exchange Board of India MF Regulations, 1996 under which a mutual fund is formed as a Public Trust having a proper structure of mutual funds. You are requested to briefly break down the structure of Mutual Funds in India to Ms. Ritika. (C.O.No. 3) [Application]



**PRESIDENCY UNIVERSITY
BENGALURU**

SCHOOL OF COMMERCE

END TERM EXAMINATION

Winter Semester: 2021 - 22

Course Code: BFS 109

Course Name: Debt Market and Mutual Funds

Program & Sem: B.Com (Professional/Honors)/6th Sem

Date: 29th June 2022

Time: 01:00 PM to 04:00 PM

Max Marks: 100

Weightage: 50%

Instructions:

(ii) *Read the all questions carefully and answer accordingly.*

Part A [Memory Recall Questions]

Answer all the Questions. Each question carries THREE marks.

(10Qx 3M= 30M)

1. Secondary market is the market where the financial instruments are issued for the first time by:
 - A. Public issues
 - B. Private placement
 - C. Right issues
 - D. None of the above

(C.O.No.5) [Knowledge]
2. Treasury Inflation-Protected Securities (TIPS) are available based on 5-, 10- or 30-year term periods, the value of which will increase gradually to match up with the _____ to keep the bond's principle on track with inflation.
 - A. Consumer Price Index
 - B. Whole-sale Price Index
 - C. Indexation
 - D. None of the above

(C.O.No.4) [Knowledge]
3. The Indian Primary market in Corporate Debt is basically a _____ market with most of the corporate bond issues being privately placed among the _____.
 - A. private placement, wholesale investors
 - B. right issues, wholesale investors
 - C. private placement, retail investors
 - D. wholesale investors, private placement

(C.O.No.1) [Knowledge]
4. The Clearing Corporation of India Ltd. (CCIL) was set up in April, 2001 to provide guaranteed clearing and settlement functions for transactions in (select the correct combination):
 - A. money, G-Secs, Foreign Exchange and Derivative markets
 - B. capital, G-Secs, Foreign Exchange and Derivative markets
 - C. primary, G-Secs, Foreign Exchange and Derivative markets

(C.O.No.2) [Knowledge]

5. Match the following columns:

Column A		Column B	
1	Default Risk	a	an adverse change in the interest rate prevalent in the market
2	Reinvestment Rate Risk	b	the probability of a fall in the interest rate resulting in a lack of options to invest the interest received at regular intervals
3	Interest Rate Risk	c	unable to make timely payment of interest or principal

(C.O.No.1) [Knowledge]

Select the correct answer from the following options:

- A. 1 – a; 2 – b; 3 – c
- B. 1 – b; 2 – a; 3 – c
- C. 1 – a; 2 – c; 3 – b
- D. 1 – c; 2 – b; 3 – a

6. Consider the following statement about the Securities Trading Corporation of India (STCI):

- i. STCI was renamed as STCI Finance Ltd.
- ii. STCI is a non-deposit taking NBFC
- iii. RBI owns a majority stake of 80% in the paid-up capital
- iv. STCI offering its product and services across multiple locations in the areas of FMCG, IT and Automobile

Select the correct answer from the following combination for correct statements about STCI:

(C.O.No.2) [Knowledge]

- A. i, ii, iii, iv
- B. iii, iv
- C. i, ii,
- D. i, ii, iii

7. Consider the following example: a 91-day government security of ₹100/- (face value) may be issued at say ₹ 98.20, that is, at a discount of say, ₹1.80 and would be redeemed at the face value of ₹100/-. The security is an example for:

(C.O.No.3) [Knowledge]

- A. Commercial Paper
- B. Treasury bill
- C. Secured Premium Notes
- D. Cash Management Bills

8. In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as _____, to meet the temporary mismatches in the cash flow of the Government of India.

(C.O.No.3) [Knowledge]

- A. Non-commercial Bills
- B. Commercial Bills
- C. Treasury Bills

D. Cash Management Bills

9. Match the following columns:

Column A		Column B	
1	SIP	a	investors can invest small amounts of money over a long period
2	STP	b	transfer a fixed/flexible amount from one scheme to a different scheme
3	SWP	c	typically allows for a fixed flow of income

(C.O.No.4) [Knowledge]

Select the correct answer from the following options:

- A. 1 – a; 2 – b; 3 – c
- B. 1 – b; 2 – a; 3 – c
- C. 1 – a; 2 – c; 3 – b
- D. 1 – c; 2 – b; 3 – a

10. Consider the following statements and state if True/False:

- i. Debt ETFs combine debt security investments with the advantages of trading on stock exchanges.
- ii. A sectoral exchange-traded fund is an ETF that invests specifically in the equity securities of a particular industry or sector.
- iii. Equity ETFs are investment products that are a combination of stock investments and equity mutual funds.
- iv. Global ETFs are investment products that allow investors in India to take exposure to international indexes like NASDAQ100 and HangSeng. (C.O.No.5) [Knowledge]

Select the correct answer combination for TRUE statements

- A. i, ii, iii, iv
- B. iii, iv
- C. i, ii, iii
- D. i, ii, iii

Part B [Thought Provoking Questions]

Answer all the Questions. Each question carries EIGHT marks.

(5Qx8M=40M)

11. A newly registered AMC is all set to offer its first New Fund Offer (NFO). The AMC wants to avoid any negligence while moving ahead with the NFO procedures. The AMC is aware that before launching a new scheme, the AMC has to submit a Draft Offer Document to SEBI for approval before it can be used as an offer document of the scheme. The AMC is worried about the back-end operations management of the NFO. Suggest the ways in which the AMC can manage the back-end process of the NFO in an efficient manner. (C.O.No.3) [Application]

12. It is often argued that the risks associated with any investments are - credit risk, interest rate risk, settlement risk and liquidity risk. Further, while corporate securities carry credit risk due to changing business conditions, government securities are perceived to have zero credit risk. Point out the differences between the government bond and the corporate bond.

(C.O.No.1) [Comprehension]

13. On the basis of structure, the mutual may be classified as open-ended and close-ended mutual funds. Enumerate the differences between the open-ended and close-ended mutual fund. Also, Suggest the ideal investment option (open-ended or closed ended) for those investors who are looking for investment in mutual funds along with liquidity. (C.O.No.2) [Comprehension]

14. Some people invest in Mutual Funds for a regular income, and they usually look at options of getting a dividend. Thus, many schemes, especially debt-oriented schemes, have monthly or quarterly dividend options. There is another method to get a monthly income: using the Systematic Withdrawal Plan. Discuss the meaning and benefits if the Systematic Withdrawal Plan. (C.O.No.5) [Comprehension]

15. Rohit wants to invest in such a commodity that can give value, stability as well as security. He has a rough idea about gold-ETFs but is not clear about the benefits of the investing in a gold ETF. Rohit is requesting you to brief him about the key benefits of investing in a gold ETF than investing in physical gold. (C.O.No.4) [Comprehension]

Part C [Problem Solving Questions]

Answer both the Questions. Each question carries FIFTEEN marks. (2Qx15M=30M)

16. Mr. Ramnath is working with TATA Ltd. He is a novice in the world of mutual fund investing. He came across the Mutual Funds articles which helped him recognize the long-term benefits of mutual funds. Mr. Ramnath wants to plan for her daughter's higher education needs (post-graduation expenses). He is though not sure whether making an appropriate choice by considering mutual funds. If yes, which are the types of mutual fund schemes he should invest in for a long-term benefit? His daughter is currently 5 years of age and he will need the money to fulfil the goal when she turns 21. It is further provided that Mr. Ramnath does not have any short-term liquidity needs. (C.O. No. 5) [Application]

17. Aleena wants to invest in some funds but she is unsure about the types of funds available. She wants to explore different forms of funds available. She has a low-risk appetite and would prefer investing in funds that can guaranteed returns on the invested amount. She is confused between the debt and the equity funds that have different categories. Aleena is requesting you kindly highlight the types of debt fund schemes available to help her understand the nuances of investing in the debt mutual funds better. (C.O. No. 4) [Application]