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Question Paper	
<b>ADVANCED FINANCIAL MANAGEMENT</b>	<b>Duration: 70</b>
<b>Details: Test 2 (Ch-4, 6 and 7)</b>	<b>Marks: 40</b>

**Instructions:**

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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**Q-1**

Explain the various indicators that can be used to assess the performance of an economy.

**(5 Marks)**

**Q-2**

'Pass through securities' are in the nature of participation certificates that enable the investors to take a direct exposure on the performance of the securitized assets. 'Pass Through Certificates', on the other hand, gives investors only a charge against the securitized assets. Do you agree with the statement? Justify your stand.

**(6 Marks)**

**Q-3**

Suppose that economy A is growing rapidly, and you are managing a global equity fund and so far you have invested only in developed country stocks only. Now you have decided to add stocks of economy A to your portfolio. The table below shows the expected rates of return, standard deviations, and correlation coefficients (all estimates are for aggregate stock market of developed countries and stock market of Economy A).

	Developed Country Stocks	Stocks of Economy A
Expected rate of return (annualized percentage)	20	30
Risk [Annualized Standard Deviation (%)	16	30
Correlation Coefficient ( $\rho$ ) between stock of two economies	0.30	

Assuming the risk-free interest rate to be 6%, you are required to determine:

(i) What percentage of your portfolio should you allocate to stocks of Economy A if you want to increase the expected rate of return on your portfolio by 1%?

(ii) What will be the standard deviation of your portfolio assuming that stocks of Economy A are included in the portfolio as calculated above?

(iii) Also show how well the Fund will be compensated for the risk undertaken due to inclusion of stocks of Economy A in the portfolio?

**(5 Marks)**

**Q-4**

Explain the concept of blockchain and its potential applications in various industries. Discuss the risks associated with blockchain technology, particularly in the context of financial management. Furthermore, define tokenization and highlight the similarities between tokenization and securitization.

**(6 Marks)**

**Q-5**

An investor has decided to invest Rs. 1,00,000 in the shares of X Ltd. and Y Ltd. The desired returns from the shares of the two companies along with their probabilities are as follows:

Probability	X Ltd (%)	Y Ltd (%)
0.20	-5	15
0.50	10	25
0.30	15	-10

You are required to:

(i) Calculate the risk and return of investment in individual shares.

(ii) Compare the risk and return of these two shares with a portfolio of these shares in equal proportions.

(iii) Find out the proportion of each of the above shares to formulate a minimum risk portfolio.

(8 Marks)

**Q-6**

The Closing values of NSE Nifty from 2<sup>nd</sup> January, 2024 to 12<sup>th\*</sup> January, 2024 were as follows:

Days	Date	Day	Nifty
1	2	TUE	21,742
2	3	WED	21,665
3	4	THU	21,517
4	5	FRI	21,462
5	6	SAT	No Trading
6	7	SUN	No Trading
7	8	MON	21,238
8	9	TUE	21,182
9	10	WED	20,997
10	11	THU	20,926
11	12	FRI	20,901

You are required to:

(i) Calculate Exponential Moving Average (EMA) of Nifty during the above period. The previous day exponential moving average of Nifty can be assumed as 21,500, The value of exponent for 31 days EMA is 0.062

(ii) Give brief analysis on the basis of your calculations.

(5 Marks)

**MCQs:-**

1. An investor is analyzing long-term stock price movements and notices a recurring pattern of five upward price movements followed by three downward corrections. Believing that market prices move in identifiable cycles influenced by investor psychology and supply-demand dynamics, the investor decides to apply a theory that categorizes these movements into directional and corrective phases.

Which theory is the investor applying, and how are the observed price movements best classified?

- A) Dow Theory; the upward movements are corrective waves, and the downward are impulsive waves
- B) Random Walk Theory; the price movements are purely unpredictable
- C) Elliot Wave Theory; the upward movements are impulsive waves, and the downward are corrective waves
- D) Modern Portfolio Theory; the movements reflect market efficiency and rational asset pricing

2. Mr. Raj is evaluating a potential investment portfolio consisting of two stocks, Stock A and Stock B. He has collected the following return data for the last two years:

Year	Return on Stock A (%)	Return on Stock B (%)
2006	10%	12%
2007	16%	18%

Mr. Raj plans to invest 40% of his funds in Stock A and 60% in Stock B. He wants to estimate the expected return on this portfolio based on the historical returns of the two stocks.

What is the expected return on Mr. Raj's portfolio?

- A) 13.0%
- B) 14.2%
- C) 15.0%
- D) 13.6%

3. Jessica, the CEO of a large financial institution, is considering securitization as a strategy to optimize the institution's asset management. Which participant plays a crucial role in assessing the credit quality of obligors and ensuring the timely payment of interest and principal repayment in the securitization process?

- A) Special Purpose Vehicle (SPV), responsible for issuing Asset Based Securities (ABS) to investors.
- B) The Investors, including mutual funds, insurance companies, and institutional investors.
- C) Receiving and Paying agent (RPA), responsible for collecting payments from obligors and passing them to SPV.
- D) Rating Agency, tasked with evaluating the creditworthiness of assets and credit support in securitized deals.

4. Which asset allocation strategy assumes that the investor's risk tolerance is constant and changes the asset allocation based on expectations about capital market conditions?

- A) Integrated Asset Allocation
- B) Strategic Asset Allocation
- C) Tactical Asset Allocation

D) Insured Asset Allocation

5. A financial analyst at ABC Ltd. is evaluating the company's performance using various statistical techniques. The analyst wants to understand the interrelationship between economic growth (GDP), industry sales, and the company's revenue. Additionally, the analyst needs to forecast future revenue while assessing the reliability of these estimates.

Which of the following statistical techniques would be most appropriate for the analyst to use in this scenario?

A) Trend Analysis

B) Decision Tree Analysis

C) Correlation & Regression Analysis

D) Simulation Techniques

(5 x 1 = 5 Marks)

