Certificate in Portfolio Management (CPM)

Mock Test-1

1) The weak for of efficient market hypothesis states that _____.
   A) Successive price changes are dependent.
   B) Successive price changes are independent.
   C) Successive price changes are biased.
   D) Successive price changes depend on trading volume.

2) When you are managing a passive fixed income portfolio, which pairs are NOT correctly matched?

Sr. No.	Objective	Benchmark Index Selection
1	Risk- free long- term investment	Money Market Index
2	Short- term cash management	Liquid Index
3	Income objective	Long Duration + Aggregate Index
4	Very Low Risk Appetite	Long Duration + High Credit Quality Index
5	Inflation Risk Mitigation	10-yr G-Sec Benchmark

   A) 1
   B) 2,3 and 4
   C) 1 and 2
   D) 1,4 and 5

3) According to the _____ people treat money differently depending on factors such as the money's origin and intended use.
   A) Capital market theory
   B) Modern portfolio theory
   C) Prospect theory
   D) Mental accounting theory

4) Daniel Kahneman and Amos Tversky (1979) introduced _____.
   A) Capital market theory
   B) Modern portfolio theory
   C) Prospect theory
   D) Mental accounting theory

5) Commission received from business forms part of income from _____ .
   A) Business and profession
   B) Capital Gains
   C) Salary
   D) Other sources

6) Which of the following is a use of security market Index?
   A) To serve as a benchmark for portfolio performance
   B) To be used for creating passive portfolios like index funds
   C) To be used for measuring systematic risk
   D) All of the above

7) An _____ is a broad outlay of the type of securities and permissible instruments to be invested in by the portfolio manager for the customer, taking into account factors specific to clients and securities.
   A) Investment approach
   B) Investment statement
   C) Investment objective
   D) Investment profile

8) _____ ratio compares the price of the stock to the earning it generates.
A) P/E ratio
B) P/B ratio
C) Price/Cash flow ratio
D) Price/sales ratio

9) Which among the following is (are) NOT part of passive management style of equity portfolio?
i. Smart Beta Portfolio
ii. Factor Based Portfolio
iii. Growth Style Investment Portfolio
iv. Value Style Investment Portfolio
v. Momentum Investing

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

10) Which among the following makes it difficult to exactly replicate a Fixed Income Index as compared to the Equity Index?
i. Availability of constituents
ii. Liquidity of constituents
iii. Matching Duration
iv. Matching Credit Quality
A) i and ii
B) ii, iii and iv
C) ii and iv
D) i,ii,iii, and iv

11) Which of the following factors make it difficult to create and maintain a bond Index?
A) The universe of bonds is broader than stocks
B) The universe of bonds is constantly changing due to new issues
C) It is difficult to derive up-to-date prices of bonds as compared to stocks
D) All of the above

12) A house property is transferred to the daughter-in-law by father-in-law and the same is let out. The rent received is taxable in the hands of _____.
A) Son
B) Daughter-in-law
C) Mother-in-law
D) Father-in-law

13) As a portfolio manager you are evaluating to add another security to the portfolio. The correlations of the 5 alternatives with the existing portfolio are given below. Which security would you choose if your objective is highest level of risk diversification?
A) 0.0
B) 0.25
C) -0.35
D) -0.85

14) Which of the following is a limitation of the historical simulation method while developing a model to measure investment risk?

i. The past may not repeat itself
ii. Distribution is assumed to be normal (bell-shaped)
iii. Mean-variance estimates can be biased

A) i
B) i and ii
C) i and iii
D) i, ii and iii

15) _____ represent ownership in a company that entitles its holders participate in its profits and the right to vote on the company's affairs.

A) Bonds
B) Commercial Papers
C) Equity Shares
D) All of the above

16) A _____ is a trust that pools the savings of a number of investors who share a common financial goal.

A) Custodian
B) Depository
C) Bank
D) Mutual Funds

17) In a Nifty 50 futures contract the underlying is _____ .

A) The top traded stocks of the Nifty 50 index
B) The average price of the stocks of the Nifty is 50 index
C) Total market capitalization of the Nifty 50 index
D) The value of the Nifty 50 index

18) Non market risks are those risks, which are not due to the market but due to the investee company's unique risk. This is known as

A) Idiosyncratic risk
B) Specific risk
C) Unsystematic risk
D) All of the above

19) Which of the following is NOT a correct with respect to Value at Risk (VaR)?

i. It is a simple concept and can be easily communicated
ii. It provides a basis for comparison
iii. Correctly estimates the frequency of extreme events
iv. Takes liquidity of assets into account

A) i and ii
B) ii, iii and iv
C) iii and iv
D) None of these

20) In India, the Central Government issues _____ .

A) Treasury bills
B) Dated securities
C) Both A and B
D) Certificate of deposits

21) The SEBI (Mutual Funds) Regulations came in the year:

A) 1996
B) 1998
C) 2000
D) 1964

22) If a portfolio is comprised of two stocks, and if the correlation coefficient between two stocks were to decrease over time everything else remaining constant the portfolio's risk would _____ .
A) Decrease
B) Remain constant
C) Increase
D) Fluctuate positively and negatively

23) Which of these is NOT a significant risk while investing in Government of India Securities?
A) Price Risk
B) Reinvestment Risk
C) Liquidity Risk
D) Credit Risk

24) The settlement price for determining daily mark-to-market margin for a futures contract is _____ .
A) The latest traded price
B) The average of the high, low and closing price
C) The weighted average price of last 30 minutes of trading
D) The average of the last 60 minutes of trading

25) Which of the following is a step in the portfolio management process?
A) Develop a policy statement
B) Study current financial and economic conditions
C) Construct the portfolio
D) All of the above

Answers.

1. B	2. D	3. D	4. C	5. A
6. D	7. A	8. A	9. B	10.B
11.D	12.D	13.D	14.A	15.C
16.D	17.D	18.D	19.C	20.C
21.A	22.A	23.D	24.C	25.D