

Mock Test Introduction to Financial Planning

1. Money has time value because:
 - a. Individuals prefer future consumption to present consumption.
 - b. Money today is more certain than money tomorrow
 - c. Money today is worth more than money tomorrow in terms of purchasing power.
 - d. There is a possibility of earning risk free return on money invested today.
 - e. **(b), (c) and (d) above.**

2. Given an investment of Rs. 10,000 to be invested for one year;
 - a. It is better to invest in a scheme that pays 10% simple interest.
 - b. It is better to invest in a scheme that pays 10% annual compound interest.
 - c. **Both (a) and (b) provide the same return**

3. Given an investment of Rs. 10,000 for a period of one year, it is better to invest in a scheme that pays:
 - a. 12% interest compounded annually
 - b. 12% interest compounded quarterly
 - c. 12% interest compounded monthly
 - d. **12% interest compounded daily**

4. Given an investment of Rs. 10,000 over a period of two years, it is better to invest in a scheme that pays;
 - a. 10% interest in the first year and 12% in second year.
 - b. 12% interest in the first year and 10% in second year.
 - c. **Both (a) and (b) above provide the same return**

5. The rule of 72 is used to find;
 - a. Approximate doubling period, given the interest rate (r)
 - b. Approximate interest rate, given the doubling period (n)
 - c. **Both (a) and (b) above.**

6. The relation between effective annual rate of interest (r_e) and nominal rate of interest (r) is best represented by;
 - a. $r_e = (1 + r/m)^m - 1$
 - b. **$r_e = (1 + r/m)^m - 1$**
 - c. $r = (1 + r_e/m) - 1$
 - d. None of the above

7. To find the present value of a sum of Rs. 10,000 to be received at the end of each year for the next 5 years at 10% rate, we use:
 - a. Present value of a single cash flow table
 - b. **Present value of annuity table.**

- c. Future value of a single cash flow table
 - d. Future value of annuity table
8. Sinking fund factor is the reciprocal of :
- a. Present value interest factor of a single cash flow.
 - b. Present value interest factor of an annuity.
 - c. Future value interest factor of a single cash flow.
 - d. Future value interest factor of an annuity.**
9. According to the 'Rule of 69' doubling period of an investment at an interest rate of 15% is :
- a. 4.6 years
 - b. 4.2 years
 - c. 4.95 years**
 - d. 5.25 years
10. If the effective rate of interest compounded quarterly is 16%, then the nominal rate of interest is :
- a. 14.6%
 - b. 15%
 - c. 14.8%
 - d. 15.12%**
11. If the interest rate on a loan is 1% per month, the effective annual rate of interest is :
- a. 12%
 - b. 12.36%
 - c. 12.68%**
 - d. 12.84%
12. If a loan of Rs. 30,000 is to be paid in 5 annual installments with interest rate of 12% p.a. then the equal annual installment will be;
- a. Rs. 7400
 - b. Rs. 8100
 - c. Rs 7812
 - d. Rs. 8322**
13. X took a housing loan of Rs. 25,00,000. The loan is to be redeemed in 120 monthly installments of Rs. 31,000 each to be paid at the end of each month. What is the implied interest rate per annum.
- a. 8.50%**
 - b. 8.1%
 - c. 7.70%
 - d. 9.12%
14. The difference between effective annual rate of interest with monthly and quarterly compounding, when nominal rate of interest is 10% is;
- a. 0.10%
 - b. 0.14%
 - c. 0.21%
 - d. 0.09%**

15. A bond has a face value of Rs. 1000 and a coupon rate of 10%. It will be redeemed after 4 years at 10% premium. Find the present value of bond at a required rate of 12% :

- a. **Rs. 1002.80**
- b. Rs. 960.72
- c. Rs. 980.84
- d. Rs. 1020.12

16. Axis bank offers 10% nominal interest for a three year fixed deposit to senior citizens. If the compounding is done quarterly, then effective annual rate of interest is :

- a. 10.25%
- b. **10.38%**
- c. 10.46%
- d. 10.52%

17. X deposits Rs. 2500 at the end of every month in a bank for 5 years. If the interest rate offered by bank is 8% p.a. compounded monthly, the accumulated sum X will get after 5 years will be:

- a. Rs. 1,76,802
- b. **Rs. 1,83,692**
- c. Rs. 1,91,507
- d. Rs. 1,94,752

18. You invest Rs. 1500 at the end of year one and Rs. 2000 at the end of second year and Rs. 5000 each year from third to tenth. Find the present value of stream at discount rate of 10%

- a. **Rs. 25,062**
- b. Rs. 24,712
- c. Rs. 26,502
- d. Rs. 24,242

19. If you take a loan of Rs 1,00,000 today and return Rs. 1,51,807 after 4 years to clear off the loan, what effective annual interest rate is paid by you:

- a. 12%
- b. 13%
- c. **11%**
- d. 12.4%

20. In how much period Rs. 1 becomes Rs. 3 at 12% rate of interest compounded annually.

- a. 12 years
- b. 8 years
- c. 10.42 years
- d. **9.69 years**

21. Which of the following statements is true?

- a. Frequency of compounding, has no effect on rate of interest.
- b. An annuity is a series of cash flows of variable amount.
- c. The nominal rate of interest is equal to or more than the effective rate of interest.
- d. **Cash flows occurring in different time periods cannot be compared unless they are discounted to a common date.**

22. If a 12% loan is to be paid back after 10 years, the sinking fund factor will be equal to:

- a. 0.03471
- b. 0.05698**
- c. 0.04231
- d. 0.09109

23. Mr X has decided to deposit Rs. 70,000 per year in his public provident fund account for next 15 years. At 8% interest compounded annually, how much money will accumulate in his accounts?

- a. Rs. 19,00,648**
- b. Rs. 20,14,340
- c. Rs. 16,05,151
- d. Rs. 19,91, 243

24. If a bank offers to double your money in 8 years, what is the effective rate of interest?

- a. 8.9%**
- b. 9.7%
- c. 10.2%
- d. 9.05%

25. An investment of Rs.5000 in a deep discount bond will return Rs. 1,00,000 in 20 years. Find the interest rate implicit in the offer?

- a. 16.72%
- b. 15.234%
- c. 17.121%
- d. 16.159%**

26. A machine is to be replaced after 5 years, when it is expected to cost Rs. 10,00,000. How much equal sum should be set aside and invested, at the end of each year at 12% p.a. to accumulate the desired sum?

- a. Rs. 1,62,416
- b. Rs. 1,57,410**
- c. Rs. 1,75,115
- d. Rs. 1,53,429

27. Money has time value. It derives this value due to existence of several conditions. Which one of the following is not one of the conditions contributing to the existence of this value? **(1)**

- A) The fees and commission sources of the firm
- B) Possibility of increase in tax rates over time.**
- C) Ability to buy/ rent assets generating revenue
- D) Cost of foregoing present consumptions

28. You are applying for an overdraft facility with the bank. What is the rate of interest you will pay on this facility? **(1)**

- A) The bank will apply a flat rate of interest on the amount of overdraft allowed to actually utilize.
- B) The bank will apply a flat rate of interest on the amount of overdraft allowed to you.

C) The bank will apply rate of interest linked to the term deposit rate, on the amount of overdraft utilized.

D) The bank will apply rate of interest linked to the term deposit rate, on the average amount of overdraft remaining unutilized from the OD limit.

29. The Nifty has doubled since the last time you advised your client to reduce his equity exposure. The client is annoyed. What might be the most appropriate action to take immediately? **(1)**

A) Apologize for wrongly forecasting the market

B) Change his asset allocation by increasing his equity exposure

C) Help the client understand the logic of his asset allocation

D) Rebalance his asset allocation by reducing equity investments

30. A professional indemnity policy protects the insured from risk arising out of _____. **(1)**

A) Intentional misconduct

B) Misrepresentation of professional competence

C) Negligence

D) Undisclosed conflict of interest

31. Which of the following is a concurrent indicator of the phase of the business cycle? **(1)**

A) Wholesale price Index

B) Index of Industrial production

C) Labor costs and capacity utilization

D) Order levels in the manufacturing sector

32. What is the main difference between the personal Financial Planning needs of the employed and the self-employed? **(1)**

A) Attitude to risk/Risk appetite

B) Need to fund children's education

C) Need to fund retirement

D) The extent of employer-provided pension benefits, if any

33. Consider a portfolio of two investments viz. A & B. The sum total of volatility of A and B respectively, represented by standard deviation of the two investments, will be equal to the volatility of the portfolio as a whole if _____. **(2)**

A) A and B have a correlation of Zero

B) A and B have a correlation of 1

C) The portfolio is equally divided between A and B

D) The return on the portfolio is equal to the sum of returns of A and B

34. Which of the following is a correct interpretation of the Rules of Conduct pertaining to the Ethic of Confidentiality? **(2)**

A) A Member must when requested by the client, provide to a person authorized by the client, all original documents prepared or received by the Member in undertaking the advisory task.

B) A Member owes to the Member's partners or co-owners a responsibility to act in good faith (expectations of confidentiality) only while in business together, not thereafter.

C) The Member shall maintain the same standards of confidentiality to employers as to clients.

D) Under no circumstance, will any Member divulge any information or knowledge regarding the FPSB India or its members that they may know or be exposed to.

35. Mr. Rajan's investment portfolio comprises Rs.2 lakh in equity, Rs.5 lakh in debt and Rs. 1 lakh in his bank current account. Over one year the returns on equity and debt are 5% and 12%. At the end of the year to maintain his current asset allocation, he needs to _____. (2)

A) Do nothing.

B) He needs to move Rs, 10000/- from equity and Rs. 60000/- from debt to cash.

C) He needs move Rs.7500/- to equity from debt and Rs. 8750/-to cash from debt

D) He needs to invest Rs. 70000/- in debt and equity.

36. A 10 year 8.0% bond (Face Value- Rs.1000, interest payable semi-annually) maturing 6 years from today is available at a yield to maturity of 6.0%. It is likely to be priced at _____. (2)

A) Rs. 1100

B) Rs. 1149

C) Rs. 1168

D) Rs. 1498

37. Raykar is an accomplished Financial Planner and is also an expert on derivatives and high yielding bonds. He understands client requirements well and is able to come up with appropriate portfolio restructuring ideas for clients. He believes in quickly moving clients from one investment to another through a dynamic process of research and recommendations. What according to the Rules relating to the Code of Ethics is the most applicable in this case? (2)

A) He does not violate the Rules if he explains to the client the reasons and is able to show that the moves are appropriate to the client.

B) He does not violate the Rules since he conducts and has access to research and advises on products relevant to clients based on an understanding of their requirements.

C) He does not violate the Rules since he is an acknowledged expert and knows what is best for his clients.

D) He violates the Rules as it amounts to active churning of client portfolios.

38. Mrs. & Mr. Arora are aged 55 and 58 years respectively. Both expect to work till they turn 65. Their only goal is to fund their retirement. Which of the following is likely to be an appropriate asset allocation strategy for them? (2)

A) 10% sectoral equity, 20% diversified equity, 30% long-term debt, and 40% medium term debt

B) 20% Sectoral equity, 60% diversified equity, 20% long-term debt

C) 30% Sectoral equity, 30% diversified equity, 40% cash/ liquid investments.

D) 80% long-term debt, 20% medium term debt

39. If the post tax rate of return on an investment is 8% and the inflation rate is 5% the real rate of return is _____. (2)

A) 3.5%

B) 3.0%

C) 2.86%

D) -3.0%

40. Which of the following is a tort of negligence? (4)

A) Mr. Joy was playing golf. He swings a new golf club on the fairway and the head of the club flies off, and hit another golfer who was standing 20 feet away.

B) Mr. Vishal takes medication that he knows makes him drowsy and then proceeds to drive. He gets into an accident injuring the passengers in another car.

C) Mrs. Jaya locks Ms. Rani in a room to prevent her from leaving the building

D) Mrs. Priti experienced a sudden surge of chest pain while driving, which causes her to lose control of her car and hit another car.

