

Unit 12 - Week 10

Course outline

How does an NPTEL online course work?

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Assignment 10

The due date for submitting this assignment has passed. As per our records you have not submitted this assignment.

Due on 2020-04-08, 23:59 IST.

1) The company XYZ is expected to pay a \$2 dividend next year. The dividends are expected to grow continuously at 7% in the future. Assuming that investors require a 12% rate of return, what should be the stock's intrinsic value? **1 point**

- a. 21.40
- b. 10.52
- c. 40.00
- d. 14.29

No, the answer is incorrect. Score: 0

Accepted Answers: c. 40.00

2) Consider the information about the stocks A, B and C provided in the table below. If the base value of the index has been taken as 100, then in the current year the value of the index using market value weighted series will be _____ **1 point**

[Hint: take values to at least four decimal points while calculating]

Stock	Shares outstanding	Base Year Closing Price	Current Year Closing Price
A	80,000	45	65
B	70,000	62	80
C	90,000	39	95

- a. 191.91
- b. 169.00
- c. 165.14
- d. 164.38

No, the answer is incorrect. Score: 0

Accepted Answers: b. 169.00

3) A reduction in the risk free rate _____ the cost of equity **1 point**

- a. Reduces
- b. Increases
- c. May reduce or increase
- d. Risk free rate does not impact cost of equity

No, the answer is incorrect. Score: 0

Accepted Answers: a. Reduces

4) The intrinsic value of an undervalued asset is: **1 point**

- a. Less than the asset's market value
- b. Greater than the asset's market value
- c. The value at which asset can be currently bought or sold
- d. None of the above

No, the answer is incorrect. Score: 0

Accepted Answers: b. Greater than the asset's market value

5) According to the Capital Asset Pricing Model (CAPM) the _____ risk is the sole factor which determines the expected return of the stock, which is used as the cost of equity of the company **1 point**

- a. Price Risk
- b. Market Risk
- c. Reinvestment Risk
- d. Financial Risk

No, the answer is incorrect. Score: 0

Accepted Answers: b. Market Risk

6) Traders are generally categorized into four types on the basis of their investment horizon period. For _____ positions are taken seconds to minutes and no overnight position. **1 point**

- a. Position Trader
- b. Swing Trader
- c. Day Trader
- d. Scalp Traders

No, the answer is incorrect. Score: 0

Accepted Answers: d. Scalp Traders

7) A _____ preference share matures in a fixed period of time and for all practical purposes it is regarded as a debt security like a debenture. **1 point**

- a. Convertible
- b. Redeemable
- c. Participating
- d. Cumulative

No, the answer is incorrect. Score: 0

Accepted Answers: b. Redeemable

8) Market price order allows the trading member to place an order which gets activated only when the market price of the relevant security reaches or crosses a threshold price. until then the order does not enter the market **1 point**

- a. True
- b. False

No, the answer is incorrect. Score: 0

Accepted Answers: b. False

9) The order driven market displays all of the bids and asks, while the quote driven market focuses only on the bids and asks of market makers. **1 point**

- a. True
- b. False

No, the answer is incorrect. Score: 0

Accepted Answers: a. True

10) The S&P BSE SENSEX follows a _____ weighting criterion. **1 point**

- a. Equal weighting
- b. Free float
- c. Market value
- d. Price

No, the answer is incorrect. Score: 0

Accepted Answers: b. Free float

11) If an investor purchases a 100 stock for \$200 per share with an initial margin requirement of 50% and maintenance margin requirement is 25%. If the price of the stock falls to \$120, will there be a margin call? If so, what price does the investor need pay in order to maintain the margin? **1 point**

- a. \$4000
- b. \$3000
- c. \$1000
- d. There will be no margin call

No, the answer is incorrect. Score: 0

Accepted Answers: c. \$1000

12) Preference share gives the shareholder voting rights **1 point**

- a. True
- b. False

No, the answer is incorrect. Score: 0

Accepted Answers: b. False

13) Which of the following statement(s) is/are not true about short selling? In a short sell, the short seller **1 point**

- a. Simultaneously borrows and sells securities through a broker
- b. Should return the securities to the lender when the short sale is closed out
- c. Must keep a portion of the proceeds of short sale on deposit with the broker
- d. Short seller hopes to profit from a rise in the price of the security or asset sold short

No, the answer is incorrect. Score: 0

Accepted Answers: d. Short seller hopes to profit from a rise in the price of the security or asset sold short

14) Traders are generally categorized into four types on the basis of their investment horizon period. For _____ positions are held from days to weeks. **1 point**

- a. Position Trader
- b. Swing Trader
- c. Day Trader
- d. Scalp Traders

No, the answer is incorrect. Score: 0

Accepted Answers: b. Swing Trader

15) Stock market is said to be liquid if traders can quickly buy or sell large numbers of shares with minimal impact on price, cost and delay. Stock market liquidity is multidimensional: width, depth, immediacy and resiliency, with _____ referring to the bid-ask spread. **1 point**

- a. Width
- b. Depth
- c. Immediacy
- d. Resiliency

No, the answer is incorrect. Score: 0

Accepted Answers: a. Width

16) The dividend discount model assumes that dividends grow at a constant rate for an infinite time period **1 point**

- a. True
- b. False

No, the answer is incorrect. Score: 0

Accepted Answers: b. False

17) Consider a stock with an expected dividend payout of 60%, a required rate of return of 12%, and an expected growth rate for dividends of 8%. Using the available information, calculate the stock's P/E ratio **1 point**

- a. 13.5
- b. 2.5
- c. 12.5
- d. 15

No, the answer is incorrect. Score: 0

Accepted Answers: d. 15

18) The winner's curse model is considered as one of the explanations for IPO overpricing **1 point**

- a. True
- b. False

No, the answer is incorrect. Score: 0

Accepted Answers: b. False

19) While the primary market helps in the supply of fresh or additional capital to the companies, the secondary markets play a direct role in making funds available to the corporate **1 point**

- a. True
- b. False

No, the answer is incorrect. Score: 0

Accepted Answers: b. False

20) Suppose stocks of ABC Ltd. are trading at a current price of \$26.75 and with current dividend of \$1 per share. You believe that over the long run company's earnings and dividend will grow at 7%. For the long run, you expect a nominal risk-free rate of about 6% and risk premium of 3%. The required rate of return is: **1 point**

- a. 9.00%
- b. 13.00%
- c. 11.00%
- d. 10.00%

No, the answer is incorrect. Score: 0

Accepted Answers: c. 11.00%