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150-Question Practice Bank

REAL EXAM SET

One full-length paper in the real exam's format, with an answer key, a short reason for every answer, the chapter it comes from, and an OMR-style answer sheet. Answers checked against the September 2026 workbook.

150	3 hrs	90	−0.10
QUESTIONS	TIME	TO PASS	PER WRONG

Take it online with a timer and instant score

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Before you start

TAKE IT LIKE THE REAL EXAM

1. Set a timer for **3 hours**. No notes.
2. Mark answers on the **OMR sheet** at the back, not on the questions.
3. Score it with the **answer key**: +1 for right, **−0.10** for wrong, 0 for blank.
4. Read the **explained answers** for every question you missed or guessed, then revise that chapter.

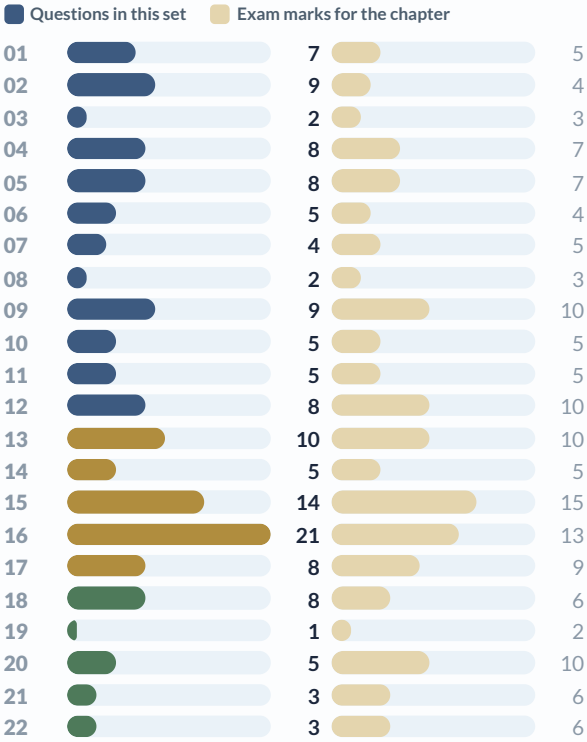
HOW MANY RIGHT ANSWERS DO YOU NEED?

QUESTIONS ATTEMPTED	CORRECT NEEDED FOR 90	WRONG ALLOWED
100	**91**	9
110	**92**	18
120	**93**	27
130	**94**	36
140	**95**	45
150	**96**	54

SHOULD YOU GUESS?

Expected score of a blind guess among 4 options = 0.25 × 1 − 0.75 × 0.10 = **+0.175**. Rule out one option and it becomes **+0.27**; rule out two and it is **+0.45**. With a 10% penalty, an educated guess usually pays.

WHERE THESE QUESTIONS COME FROM



Module 1: 72 questions · Module 2: 58 · Module 3: 20. Every question is tagged with its chapter in the explained answers.

Checked against the workbook. Every answer and explanation has been checked against the NISM workbook (version September 2026). Please read the **Disclaimer** at the end.

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PART A The 150 questions

Time: 3 hours · 1 mark each · −0.10 for each wrong answer

1 Which statement correctly describes the role of impact cost in determining whether a stock can be included in an index?

(A) Impact cost alone determines whether a stock qualifies for inclusion in an index
(B) Low impact cost is a requirement for a stock to be included in an index
(C) High impact cost is a requirement for a stock to be included in an index
(D) Impact cost does not play any role in assessing index eligibility

2 A call option on PQR stock is sold at a strike price of Rs 630 for a premium of Rs 20. Given a lot size of 1,500 and an expiry price of Rs 665, what will be the net profit or loss on the position?

(A) Profit of Rs 22500
(B) Profit of Rs 12500
(C) Loss of Rs 22500
(D) Loss of Rs 12500

3 If the coupon of the bond increases, its Modified Duration will _____. (Other things remaining constant)

(A) Increase
(B) Decrease
(C) May increase or decrease
(D) Remain constant

4 To construct a Bullish vertical spread, an investor would:

(A) Purchase an at-the-money put while simultaneously selling an out-of-the-money put with the same expiry
(B) Take a short position in an at-the-money call and a long position in an out-of-the-money call with the same expiry
(C) Take a long position in an at-the-money call and a short position in an out-of-the-money call with the same expiry
(D) Sell an at-the-money call in the current month and purchase an at-the-money call in the next month

5 When the market is _____, a forward contract with a longer maturity generally trades at a _____ price.

(A) Normal, lower
(B) Normal, higher
(C) Contango, lower
(D) Backwardation, higher

6 A trader enters into a position of 5 lots in single bond futures at Rs. 305. Determine the resulting contract value.

(A) Rs 35,00,000
(B) Rs 30,00,500
(C) Rs 35,50,000
(D) Rs 30,50,000

7 Investment of funds pooled from unit-holders is the responsibility of:

(A) Trustees
(B) Asset Management Company (AMC)
(C) RTA
(D) Custodian

8 For an "In-the-money" put option, which of the following is true?

(A) The strike price is zero
(B) The strike price is equal to the current market price
(C) The strike price is lower than the current market price
(D) The strike price is higher than the current market price

9 How does reinvestment risk affect a bond?

(A) It has no impact at all
(B) Its impact occurs gradually over a period of time
(C) It has an immediate impact
(D) None of the above

10 A trader enters into a spread position by selling January-series bond futures at Rs 98.90 and purchasing February-series bond futures at Rs 99.05. Fifteen days later, the January contract is squared off at Rs 98.75 and the February contract at Rs 98.95. How much profit does the trader earn per contract?

(A) Rs 1000
(B) Rs 800
(C) Rs 300
(D) Rs 100

11 Which of the following is true regarding the risk-return profile of mutual fund schemes?

(A) Moving from liquid funds to debt funds, investment risk increases
(B) Moving from liquid funds to equity funds, potential return increases
(C) Both of the above
(D) None of the above

12 Mr. Suresh is planning to begin a Systematic Investment Plan (SIP) in a mutual fund. Which statement below is accurate?

(A) A SIP can be used to make fresh purchases in mutual funds
(B) A SIP can only be registered against an existing folio
(C) A SIP cannot be registered when investing in a New Fund Offer (NFO)
(D) A SIP facility is available for close-ended schemes

13 Which of the following best describes the shape of an 'Inverted' term structure?

(A) Interest rates are identical for all terms
(B) Interest rates initially increase and then decrease with the term
(C) Interest rates decrease as the term lengthens
(D) Interest rates increase with the length of the term

14 The information contained in a Mutual Fund advertisement must be:

(A) Approved by SEBI
(B) Valid for a one-year investment period
(C) Timely and up to date
(D) All of the above

15 When the near leg of the calendar spread transaction on index futures expires, the farther leg becomes a regular open position.

(A) True
(B) False

16 Which of the following statements is/are correct?
a) A diversified stock market index has a beta above 1.
b) Beta is an indicator of systematic risk.
c) The beta of an index fund is generally expected to be equal to one.

(A) Only statements b and c
(B) Only statements a and c
(C) Only statements a and b
(D) Statements a, b, and c

17 Which of the following correctly reflects the AMFI Code of Conduct applicable to mutual fund intermediaries?

(A) Pass on the commission received by the intermediary back to the investor.
(B) Splitting applications with the intention of earning additional transaction charges.
(C) Refraining from making adverse comments about an AMC or its schemes.
(D) All of the above

18 A segregated portfolio may be created under which of the following types of mutual fund schemes?

(A) Large-cap equity fund
(B) Corporate bond fund
(C) Index-based equity fund
(D) Sector-focused fund

19 Which of the following statements is INCORRECT regarding mutual fund schemes offering the Income Distribution cum Capital Withdrawal (IDCW) Reinvestment option?

(A) The scheme's NAV increases to the extent of the IDCW amount that is reinvested in the scheme
(B) Reinvestment of IDCW results in additional units being allotted to the investor
(C) The investor receives an amount under the IDCW
(D) None of the above

20 Which of the following statements correctly describes how a long position in a put option can be closed out?

(A) By taking a long position in a call option with the same exercise date and exercise price
(B) By taking a short position in a put option with any exercise date and exercise price
(C) By taking a short position in a call option with the same exercise date and exercise price
(D) By taking a short position in a put option with the same exercise date and exercise price

21 Which of the following approaches helps ensure that the mutual fund scheme selected is appropriate for the investor's circumstances?

(A) Indexation strategy
(B) Tax harvesting strategy
(C) Asset allocation strategy
(D) Dividend stripping strategy

22 From the documents listed below, select which are mandatory scheme-related documents:
1. Fund Fact Sheet
2. Addendum
3. Statement of Additional Information (SAI)
4. Scheme Information Document (SID)
5. Key Information Memorandum (KIM)

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

23 Identify the INCORRECT statement regarding KYC requirements for Mutual Fund investments:

(A) The Asset Management Company does not carry out the KYC process.
(B) An investor is required to submit KYC documents each time they invest in a different Mutual Fund
(C) Both of the above are incorrect
(D) None of the above

24 Mr. Saurav holds 200 call options on a stock, purchased at Rs. 20 premium each, strike price Rs 500. On maturity, the stock trades at Rs. 450. Ignoring transaction costs and assuming liquidity, the rational choice for Mr. Saurav is:

(A) To exercise but reject delivery of the underlying shares
(B) To exercise because he admires the company and its management
(C) To exercise the option
(D) Not to exercise the option

25 When evaluating liquid funds from different fund houses within the same category, which factor is most relevant for comparing their performance?

(A) Taxation on the investment
(B) Fund-related expenses
(C) Both of the above
(D) None of the above

26 Taking a long position in Nifty September futures and a short position in Nifty October futures is an example of which type of transaction?

(A) An arbitrage transaction
(B) A speculative transaction
(C) A spot market transaction
(D) A hedging transaction

27 A mutual fund is required to report certain information about accounts identified under FATCA. Which of the following may be included in the reported information?

(A) The identity of the account holders
(B) The identity of the beneficial owners
(C) The value of investments maintained under all the investor's folios
(D) All of the above

28 Which of the following risks may arise when a client's order is not executed correctly?

(A) Counterparty risk
(B) Operational risk
(C) Liquidity risk
(D) Regulatory risk

29 To wind up a mutual fund scheme, a resolution must be passed by what proportion of unit holders?

(A) 50%
(B) 60%
(C) 75%
(D) 90%

30 Which of the following best describes the meaning of 'Gamma' in options trading?

(A) Change in option value resulting from a change in the interest rate
(B) Change in option value resulting from a change in the underlying asset's spot price
(C) Change in option delta resulting from a change in the underlying asset's spot price
(D) Change in option value resulting from a change in underlying volatility

31 Past closing prices are used to calculate which of the following measures of volatility?

(A) Implied volatility
(B) Historical volatility
(C) Both historical and implied volatility
(D) None of these

32 An investor makes a claim for an unclaimed redemption amount after a period of three years. On the basis of which NAV will the amount be paid?

(A) The NAV applicable on the original redemption date
(B) The NAV prevailing at the time of the claim
(C) The average of the original redemption NAV and the current NAV
(D) NAV at the end of the three-year period

33 Participants buy a put option with strike price of 98.50 at a premium of Rs. 0.20. On expiry the bond price is Rs. 98.50. What is his net pay-off?

(A) No profit & no loss
(B) Profit of Rs. 0.20
(C) Profit of Rs. 0.25
(D) Loss of Rs. 0.20

34 What is the prescribed action under AMFI's Code of Conduct when a mutual fund intermediary commits a second violation?

(A) Withholding of registration and notification sent to all AMCs
(B) Cancellation of registration and notification sent to all AMCs
(C) Suspension of registration and notification sent to all AMCs
(D) No action against the intermediary

35 What market movement would a bearish investor generally anticipate?

(A) An increase in market prices
(B) Sideways movement in the market
(C) A decline in market prices
(D) No significant change in prices

36 With respect to mutual fund fact sheets, which of the following statements is true?

(A) Fund fact sheets are published by AMCs voluntarily.
(B) Reading the fund fact sheet is compulsory for every investor before investing.
(C) SEBI requires Asset Management Companies to publish fund fact sheets every month.
(D) Fact sheets are released exclusively at the time of a New Fund Offer.

37 Identify the statement(s) that are true regarding Arbitrage funds and Fixed Maturity Plans.

(A) Investors with a strong need for liquidity would generally be better suited to investing in Fixed Maturity Plans (FMPs).
(B) Arbitrage funds are not typically recommended for investors seeking capital appreciation from their investments.
(C) Both of the above are true
(D) None of the above

38 Total number of derivatives contracts outstanding is called _____.

(A) Long position
(B) Short position
(C) Open interest
(D) None of the above

39 Suppose Ambuja Cement is priced at Rs 400 per share. A trader expects the stock to remain relatively stable after its recent sharp rally and does not anticipate further significant gains or an immediate correction. Which strategy should the trader consider?

(A) Purchase the Rs 400 put
(B) Purchase the Rs 400 call
(C) Purchase the Rs 420 call along with the Rs 380 put
(D) Sell the Rs 420 call along with the Rs 380 put

40 Which of the following is the main role of a mutual fund?

(A) Designing customized portfolios for each investor
(B) To manage and operate an investment portfolio
(C) Handling investors' tax obligations
(D) All of the above

41 Which one of the following financial instruments falls under the category of derivatives?

(A) S&P 500 Futures
(B) A Certificate of Deposit
(C) Equity stock of XYZ Ltd.
(D) Government-issued Treasury Bills

42 For mutual fund units to be eligible for lien marking, which of the following conditions must be satisfied?

(A) The units must be held by a single unit holder
(B) The folio must not have any nomination
(C) The units being offered as lien must not have a lock-in
(D) All of the above

43 The S&P BSE Bankex can be used as a benchmark for which category of fund?

(A) Arbitrage Funds
(B) Banking funds
(C) Mid-cap equity funds
(D) Funds of Fund

44 Which of the following categories of Mutual Funds does not provide an investor with exposure to multiple sectors?

(A) Thematic Funds
(B) Diversified Equity Funds
(C) Sector Funds
(D) Focused Funds

45 Which of the following factors does NOT influence the extent of price movement in debt securities when interest rates change?

(A) The issue price of the security
(B) The coupon rate of the security
(C) The residual maturity of the security
(D) The current yield to maturity (YTM)

46 Which of the following documents should an investor refer to in order to understand the fundamental attributes of a mutual fund scheme?

(A) Fact sheet of the fund
(B) Addendum
(C) Key Information Memorandum (KIM)
(D) Scheme Information Document (SID)

47 Which option pricing model determines its value using an iterative calculation approach?

(A) Black-Scholes
(B) Binomial
(C) Forward Rate
(D) Bachelier Model

48 Which of the following is required for mutual fund distributors to be eligible for empanelment?

(A) The distributor must have over 8 years of mutual fund distribution experience
(B) The distributor must be registered with SEBI
(C) The distributor must have completed the KYC process
(D) The distributor must have completed the KYD process

49 Which of the following statements are correct regarding the Statement of Additional Information (SAI)?

(A) Material changes in SAI should be updated continuously and published on the websites of both the mutual fund and AMFI.
(B) The SAI should be updated regularly within three months of the close of every financial year.
(C) Both of the above are correct
(D) None of the above

50 A fund manager selects sugar companies stocks because the companies are increasing their capacity and expanding operations. What type of investment style does this represent?

(A) Value-oriented style
(B) Blended style
(C) Growth-oriented style
(D) Cyclical style

51 If an investor holds a long position in the underlying stock while simultaneously taking a short position in a call option, which strategy is being used?

(A) Butterfly Strategy
(B) Naked Call Writing
(C) Covered Call Writing
(D) Protective Put Strategy

52 An investor purchases a put option on a share with a strike price of Rs 740 and pays a premium of Rs 43 to the option writer. What is the maximum possible loss on this position?

(A) Unlimited
(B) Rs 740
(C) Rs 43
(D) Rs 697

53 Consider a trader who goes long on both a 75.25 CALL and a 74.75 PUT. The premiums paid are Rs 0.10 and Rs 0.05, respectively. With the underlying price settling at 75.50 on the expiry date, determine the trader's net payoff.

(A) 0.10 Profit
(B) 0.15 Loss
(C) 0.25 Profit
(D) 0 (No Profit No Loss)

54 In Mutual Fund distribution, trail commission is earned through:

(A) A commission received when an investor invests in the scheme
(B) A commission received for the duration of the investor's investment in the scheme
(C) A commission received when an investor leaves the scheme
(D) No commission is payable

55 Which of the following best describes the meaning of 'Delta' in options?

(A) The change in an option's premium over one day
(B) The change in an option's premium for a one-unit change in the underlying asset's volatility
(C) The change in an option's premium for a one-unit change in the spot price of the underlying asset
(D) The change in an option's premium for a one-unit change in interest rates

56 In which type of mutual fund scheme must the NAV be reported to four decimal places?

(A) Aggressive hybrid mutual funds
(B) Large-cap mutual funds
(C) Small-cap mutual funds
(D) Index mutual funds

57 Which statement correctly describes Yield-to-Maturity (YTM)?
a) It represents the true measure of return.
b) It is an alternative way of expressing a bond's price

(A) Only statement a
(B) Only statement b
(C) Both statements a and b
(D) Neither statement a nor b

58 As sector funds invest entirely in a single industry, they are most exposed to:

(A) Concentration risk
(B) Credit risk
(C) Interest rate risk
(D) Liquidity risk

59 Currently, exchanges permit cash settlement for which of the following bond futures?

(A) 6-year bond futures
(B) 10-year bond futures
(C) 13-year bond futures
(D) All of the above

60 Intraday trading in the Indian stock market is possible in which of the following?

(A) Units of all actively managed funds
(B) Units of all Exchange Traded Funds (ETFs)
(C) Units of all index funds
(D) All of the above categories

61 In the context of futures contracts, mark-to-market refers to the daily adjustment of the portfolio value according to the _____ determined on the exchange.

(A) Price at market opening
(B) Highest price recorded during the day
(C) Last traded price
(D) Daily settlement price

62 When the maturity period of a call option becomes shorter, the option's _____ is expected to decrease.

(A) Intrinsic value
(B) Settlement value
(C) Assignment value
(D) Time value

63 Which of the following can be classified as a tangible or physical asset?

(A) Mortgage-backed securities
(B) A Gold ETF
(C) Gold coins
(D) Derivative instruments based on commodities

64 A Rs 75 lakh investment is made in a Gilt Scheme at 2:30 p.m. by way of a local cheque. Determine the NAV applicable for unit allotment.

(A) The closing NAV for the day on which the application is submitted
(B) The NAV of the business day on which the invested funds are available for use
(C) The closing NAV of the day preceding the date on which the funds become available
(D) The closing NAV from the preceding day

65 _____ are derivatives with underlying as theoretical bond and not a physical bond.

(A) Single bond Futures
(B) Notional Bond Futures
(C) Money market futures
(D) None of the above

66 The beta of a portfolio is calculated as:

(A) The simple mean of the betas of all securities forming part of the portfolio
(B) The weighted average of the constituent / individual security betas based on their portfolio values
(C) The beta of the portfolio's largest security by market capitalisation
(D) The combined sum of the constituent / individual betas of the securities held in the portfolio

67 If a bond has an 7% coupon rate and comparable bonds in the market are currently offering a 8% interest rate, what is likely to happen to the bond held by the investor?

(A) Its market price will fall
(B) Its market price will rise
(C) Its coupon rate will increase
(D) Neither the coupon nor the market price will change

68 Under SEBI's prescribed due diligence requirements, which of the following mutual fund distributors would NOT be subject to the due diligence process?

(A) A distributor having Rs 75 crore of AUM from non-institutional investors
(B) A distributor whose operations extend across more than 25 locations
(C) A distributor who has received Rs 150 lakh in commissions across the industry
(D) All of the above

69 When a portfolio is periodically rebalanced to maintain a constant asset allocation ratio, this strategy is known as:

(A) Dynamic Asset Allocation
(B) Flexible Asset Allocation
(C) Fixed Asset Allocation
(D) Multi Asset Allocation

70 An investor takes a long position in 15 contracts of June Nifty futures and a short position in 5 contracts of July Nifty futures. The number of lots treated as spread transactions would be:

(A) 5
(B) 10
(C) 15
(D) 20

71 What would be the value of a single lot of ABC futures when the futures price is Rs. 8600 and the contract multiplier is 50?

(A) Rs. 43000
(B) Rs. 86000
(C) Rs. 4,30,000
(D) Rs. 6,20,000

72 Complete the following statement: Forward contracts are generally _____ to counterparty default risk because protection from clearing corporation is _____.

(A) Exposed; not available
(B) Not exposed; available
(C) Not exposed; not available
(D) Some what exposed; available

73 Minimum investment threshold for investment strategies launched under _____ would be Rs. 10 lakhs.

(A) Alternative Investment Fund (AIF)
(B) REITs
(C) Close-ended Mutual Funds
(D) Specialized Investment Funds (SIF)

74 The following mutual fund scheme categories are arranged in increasing order of risk:
1. Government Securities Fund
2. Corporate Bond Fund
3. Credit Risk Fund. Which type of risk is being referred to in this classification?

(A) Duration risk, associated with the sensitivity of the portfolio to time to maturity
(B) Interest rate risk, caused by movements in prevailing interest rates
(C) Credit risk, arising from changes in the creditworthiness of issuers
(D) Concentration risk, resulting from excessive exposure to specific investments

75 Which of the following best describes the role of an exchange?

(A) To facilitate transactions between buyers and sellers
(B) To settle transactions between buyers and sellers
(C) Both of the above
(D) None of the above

76 Which option grants its buyer the right to buy the underlying instrument at an agreed price on or before a specified expiration date?

(A) Call option only
(B) Put option only
(C) Both types of options—call and put
(D) Neither of the two

77 Which of the following statements is correct regarding futures contracts?

(A) Futures contracts are traded directly between counterparties on a one-to-one basis
(B) Futures contracts do not have a specified maturity date.
(C) Futures contracts cannot be closed before their expiry date.
(D) Futures contracts can be squared off at any time before expiry.

78 Redemption from which of the following mutual fund schemes would attract Securities Transaction Tax (STT) for an investor?

(A) Government Securities Fund
(B) Overnight Fund
(C) Multi-cap mutual fund
(D) Liquid Fund

79 In which of the following instruments is the principal repaid periodically rather than entirely at maturity?

(A) Zero-coupon bond
(B) Staggered maturities
(C) Consol
(D) Coupon bond

80 What type of position is created or increased through an 'Opening sell transaction'?

(A) A long position
(B) A short position
(C) An arbitrage position
(D) A cross position

81 When the interest rate in the economy increases, the price of existing bonds _____.

(A) Fluctuate
(B) Increases
(C) Decreases
(D) No change

82 A scheme declares that its investment in derivatives will not exceed 10% of its net assets. Which aspect of the scheme does this statement describe?

(A) Its risk profile
(B) Its investment policy
(C) Its sales pitch
(D) Its investment objective

83 A company intends to invest in a particular mutual fund scheme. Which document would authorise this company to make such an investment?

- (A) A resolution passed by the company's shareholders
- (B) A specific resolution passed by the company's Board
- (C) Companies are permitted under the Companies Act to invest in mutual funds without obtaining specific authorisation
- (D) Companies are prohibited from investing in mutual fund schemes

84 An investor wishing to update their default bank account details should register the change with:

- (A) The KYC Registration Agency (KRA)
- (B) The Association of Mutual Funds in India (AMFI)
- (C) With either the KRA or AMFI
- (D) The mutual fund directly

85 Who is responsible for approving the different valuation methodologies applicable to the securities held by mutual fund schemes?

- (A) The AMC's Board of Directors
- (B) The Fund Manager overseeing the scheme
- (C) The AMC Risk Manager
- (D) Fund Accounting Department

86 As the strike price of a put option decreases, what happens to its premium?

- (A) Increases
- (B) Decreases
- (C) Increases two times
- (D) Remains unchanged

87 Which maturity period applies to the Treasury Bill underlying futures contracts?

- (A) 7-day maturity
- (B) 14-day maturity
- (C) 182-day maturity
- (D) None of these options

88 The quotation of an Overnight MIBOR Futures contract is determined using which of the following formats?

- (A) Interest rate
- (B) Interest amount
- (C) 100 + interest rate
- (D) 100 - interest rate

89 In which type of stock market index does a higher-priced stock have a greater influence on the index value?

- (A) Full market capitalisation-weighted index
- (B) Free-float market capitalisation-weighted index
- (C) Equal-weighted index
- (D) Price-weighted index

90 Who sets the limits on expenses charged by an AMC to a mutual fund scheme?

- (A) SEBI
- (B) The trustees
- (C) The fund managers
- (D) The investors

91 Which of the following officials within an Asset Management Company (AMC) is responsible for ensuring legal and regulatory compliance in a mutual fund?

(A) Chief Investment Officer
(B) Compliance Officer
(C) Chief Marketing Officer
(D) Legal compliance does not fall under the AMC's responsibilities

92 Pay-off graphs for futures contracts are generally considered to be:

(A) Linear
(B) Non-linear
(C) Both of the above
(D) None of the above

93 Which of the following investment options would be most suitable for an investor seeking pure exposure to gold?

(A) Gilt fund
(B) Gold ETF
(C) A fund focused on gold mining companies
(D) A fund focused on the gold sector

94 A financial arrangement where parties exchange interest payment obligations, with one based on a fixed rate and the other linked to a floating rate, is called:

(A) A Forward Rate Agreement (FRA)
(B) A Money Market Futures Contract
(C) An Interest Rate Swap
(D) An Interest Rate Futures Contract

95 Identify the incorrect statement regarding option contracts.

(A) The payoff from an option contract is linear.
(B) The payoff from an option contract is non-linear.
(C) An option buyer holds the right, while the option seller is subject to the obligation.
(D) Option contracts are asymmetric with respect to the rights and obligations of the parties.

96 Which of the following correctly describes the approach of speculators and hedgers towards risk?

(A) Speculators increase risk, while hedgers take on risk
(B) Speculators reduce risk, while hedgers also reduce it
(C) Speculators take on risk, while hedgers seek to reduce it
(D) Speculators reduce risk, while hedgers increase it

97 An increase in interest rates will have which of the following effects on the premium of a put option?

(A) Increase the put option premium
(B) Decrease the put option premium
(C) Have no effect on the put option premium
(D) It results in the automatic expiration of the put option

98 Identify the false statement regarding SEBI's Complaints Redress System (SCORES).

(A) SCORES does not permit investors to submit complaints physically
(B) SCORES is an online, web-based grievance redressal system that functions through an automated environment.
(C) SCORES facilitates the receipt, resolution, and reporting of investor complaints by market intermediaries and listed companies.
(D) Physical complaints from investors may be scanned and uploaded to SCORES for further action.

99 Which of the following best describes the status of a mutual fund unit holder?

(A) A depositor with the fund
(B) A beneficial owner of the assets held by the fund
(C) A shareholder of the Asset Management Company (AMC)
(D) A shareholder of the trustee company

100 To hedge against price fluctuations in equities, a hedger may adopt which of the following futures positions?

(A) Taking only a long futures position
(B) Taking only a short futures position
(C) Taking either a long or a short futures position
(D) Simultaneously holding both long and short futures positions

101 The SID, SAI, and KIM are updated at prescribed intervals. In the event of any changes, which interim document is issued by the mutual fund or AMC?

(A) An Addendum
(B) An Author's Report
(C) A Fact Sheet
(D) A Product Brochure

102 What happens to an exchange-traded option after it reaches maturity?

(A) It cannot be traded
(B) It can be traded on the exchange for the following week
(C) It can be traded only in the over-the-counter (OTC) market
(D) It can be traded in the spot market

103 A business may be exposed to several different risks. The use of derivatives can help with _____ these risks.

(A) Reducing certain types of risk
(B) Reducing all types of risk
(C) Eliminating certain types of risk
(D) Eliminating all types of risk

104 A bond investor plans to make a purchase in two months but expects bond prices to rise in the meantime, resulting in lower yields. Which of the following could be used as a hedge?

(A) Purchase a GOI call option
(B) Purchase GOI bond futures
(C) Both of the above
(D) None of the options listed

105 Identify the incorrect statement concerning the risks involved in short selling and stock lending.

(A) The involvement of an approved intermediary eliminates all risks associated with securities lending.
(B) Counterparty risk and liquidity risk can arise from short selling and securities lending activities.
(C) Both of the above are incorrect
(D) None of the above

106 Which type of investor seeks higher returns and is willing to accept greater risk?

(A) A conservative investor
(B) An aggressive investor
(C) A novice (new) investor
(D) None of the above

107 Which type of option provides the holder with the right to buy the underlying asset at a predetermined price on a particular date?

(A) American call option
(B) American put option
(C) European call option
(D) European put option

108 When the price of a far-month futures contract is higher than that of a near-month futures contract, this market condition is known as:

(A) Bear Market
(B) Inverted market
(C) Backwardation
(D) Contango

109 A portfolio that is well diversified across stocks continues to carry which of the following risks?

(A) Systematic risk only
(B) Specific risk only
(C) Both systematic and specific risks
(D) No systematic or specific risks

110 A conservative hybrid fund invests a portion of its assets in equity instruments. What is the applicable equity investment range?

(A) 5% to 15% of the total assets
(B) 10% to 25% of the total assets
(C) 20% to 30% of the total assets
(D) 30% to 50% of the total assets

111 Identify the activity that does NOT fall under SEBI's scope of responsibilities.

(A) Granting approval for AMC fund manager appointments
(B) Designing policies for mutual fund industry
(C) Regulating the country's stock exchanges
(D) Making sure its regulations are followed

112 Identify the feature that typically applies to a close-ended mutual fund.

(A) The fund can invest in only a fixed number of securities
(B) The number of investors remains fixed
(C) The fund has a fixed unit capital
(D) The NAV remains stable

113 Which of the following is a measure of fluctuation in periodic returns in an equity mutual fund scheme?

(A) Modified duration
(B) Variance
(C) Jensen's Alpha
(D) Sharpe ratio

114 The Total Expense Ratios (TERs) of mutual fund schemes are required to be disclosed on an AMC's website at which frequency?

(A) Hourly
(B) Daily
(C) Weekly
(D) Annually

115 An index comprising government securities can serve as a suitable benchmark for:

(A) Debt Funds
(B) Gilt Funds
(C) Liquid Funds
(D) Credit Risk Funds

116 Which is the most appropriate measure of evaluating how closely an index fund is tracking its benchmark?

(A) Tracking error
(B) Assets Under Management (AUM)
(C) Treynor ratio
(D) Total Expense Ratio (TER)

117 A fall in the long-term interest rate compared with the short-term rate results in which type of term structure shift?

(A) Flattening
(B) Parallel shift
(C) Perpendicular shift
(D) Steepening

118 Which of the following costs is not actually paid by the market participants but arises due to lack of liquidity?

(A) Brokerage
(B) SEBI charges
(C) Impact cost
(D) Securities Transaction Tax

119 What combination of option positions is used to construct a long straddle?

(A) Purchasing a lower-strike call and selling a higher-strike put
(B) Purchasing a higher-strike call and selling a lower-strike call
(C) Purchasing a call and a put option with an identical strike price
(D) Purchasing a lower-strike call and selling a higher-strike call

120 Identify the instrument that is not classified as a derivatives market product.

(A) Swap agreement
(B) Futures contract
(C) Options contract
(D) Preference share

121 The rules and specifications of a futures contract are determined by:

(A) The exchange
(B) The clearing corporation
(C) Seller of the contract
(D) Buyer of the contract

122 In a Life Cycle Fund, as the fund moves towards maturity:

(A) Equity component moves up, debt component comes down
(B) Equity component moves up, gold component comes down
(C) Equity component comes down, gold component moves up
(D) Equity component moves down, debt component goes up

123 Consider the following statements and identify the true one:

(A) Persons of Indian Origin (PIOs) are not allowed to invest on a repatriable basis.
(B) Foreign investors are eligible to invest in equity schemes of mutual funds once they complete the necessary KYC formalities
(C) Both of the above
(D) None of the above

124 Which entity generally undertakes the process of constructing, maintaining, and revising an index?

(A) The stock exchange
(B) A specialised agency
(C) The Securities and Exchange Board of India (SEBI)
(D) The clearing corporation

125 An investor looking for comparative performance data of mutual fund schemes across the industry should refer to which of the following?

(A) KIM (Key Information Memorandum)
(B) SID (Scheme Information Document)
(C) AMFI website
(D) Fund Fact Sheet

126 In the context of a Systematic Withdrawal Plan (SWP), which of the following statements regarding capital gains is true?

(A) Capital gains are taxed according to the applicable provisions of the Income Tax Act.
(B) SWP withdrawals are considered income and therefore cannot give rise to capital gains.
(C) Tax applies only to income distributions and capital withdrawals, and not to capital gains.
(D) Investors do not incur capital gains when making SWP withdrawals.

127 A trader writes a put option at a strike price of Rs 798.50 and earns a premium of Rs 0.20. On the expiration date, the underlying bond is priced at Rs 798.90. Determine the net payoff to the trader.

(A) Loss of Rs 0.20
(B) Loss of Rs 0.40
(C) Profit of Rs 0.20
(D) Profit of Rs 0.40

128 An investor is confident that they can always beat market returns. This belief reflects which behavioural bias?

(A) Optimism bias
(B) Anchoring bias
(C) Recency bias
(D) Familiarity bias

129 A mutual fund distributor receives a unique ARN number from each Asset Management Company (AMC), which needs to be renewed every three years. State whether the statement is True or False.

(A) True
(B) False

130 Mutual fund distributors earn no commission when the investor chooses to invest in "direct" plans. State whether True or False.

(A) True
(B) False

131 An investor sells one XYZ futures contract at Rs 570 per share. The contract has a lot size of 1,500 shares. If the position is squared off by purchasing the contract at Rs 543, what is the resulting profit or loss?

(A) Loss of Rs 28,700
(B) Loss of Rs 33,100
(C) Profit of Rs. 35,000
(D) Profit of Rs. 40,500

132 Which of the following statements about Mutual Funds is correct?

(A) Mutual Funds provide options such as growth, income distribution with capital withdrawal, and reinvestment based on investors' preferences regarding the treatment of their profits.
(B) Investors generally have greater liquidity in Interval Funds compared with close-ended Mutual Funds.
(C) Both of the above are correct
(D) None of the above

133 Which among the following is not a statutory document?

(A) Statement of Additional Information
(B) Fund factsheet
(C) Scheme Information Document
(D) Key Information Memorandum

134 Which statement below is NOT true about the tracking error associated with index funds?

(A) A lower tracking error is considered beneficial from an investor's standpoint
(B) Since tracking error is determined by the regulator SEBI, all index funds have the same tracking error.
(C) Cash balances held by the fund manager may contribute to tracking error
(D) Fund-related expenses are one of the factors that may lead to tracking error.

135 Operational risks include losses due to _____.

(A) Government policies
(B) Too much of management control
(C) Inadequate disaster planning
(D) Income tax regulations

136 Which of the following statement(s) regarding bank fixed deposits is/are correct?

(A) The interest earned from a bank fixed deposit is completely exempt from tax
(B) The interest rate on a bank fixed deposit remains fixed for the agreed tenure.
(C) Both Statements are correct
(D) None of the above

137 When an option reaches maturity, its value is equal to:

(A) Zero
(B) The option's time value
(C) The option's intrinsic value
(D) Infinite

138 Assuming all other factors remain unchanged, what happens to the premium of a put option when its time to expiry increases?

(A) The premium increases
(B) The premium decreases
(C) The premium remains unchanged
(D) Cannot be determined from the given information

139 The coupon payable on a bond is determined with reference to its:

(A) Issue price
(B) Face value
(C) Maturity value
(D) Redemption price

140 Which of the following positions would an arbitrageur take when executing reverse arbitrage using a single-bond interest rate futures contract?

(A) Short the GOI bond in the underlying market and go long on its corresponding futures contract
(B) Short the GOI bond in the underlying market and short its corresponding futures contract
(C) Take a long position in the underlying bond and a short position in its futures contract
(D) Take long positions in both the underlying bond and its futures contract

141 Which of the following situations indicates a bullish trend in the underlying?

(A) A falling futures price along with falling open interest
(B) A rising futures price along with rising open interest
(C) A falling futures price along with rising open interest
(D) A rising futures price along with falling open interest

142 You sell a put option on a stock with a strike price of Rs 1000 and receive a premium of Rs 110. If the lot size is 500 and the stock closes at Rs 850 on expiry, what is your profit or loss?

(A) Profit of Rs 15000
(B) Loss of Rs 15000
(C) Profit of Rs 20000
(D) Loss of Rs 20000

143 Select the correct statement regarding the nature of forward and futures contracts.

(A) Futures contracts have standardized terms, whereas forward contracts can be customized for specific clients
(B) Forward contracts follow standard terms, whereas futures are tailored to specific clients
(C) Both types of contracts can be customized based on the client's requirements
(D) Both types of contracts have standardized terms and conditions

144 In case of mutual fund schemes, dividends can be paid only out of _____.

(A) Premium reserve account
(B) Mark-to-market profits
(C) Unit capital
(D) Distributable surplus generated by the scheme

145 In which Mutual Fund document are 'General and specific risk factors' disclosed?

(A) Fund Fact Sheet
(B) Annual Newsletter
(C) Scheme Information Document
(D) Statement of Additional Information

146 If a trader takes a long position in a futures contract at Rs 360 and the underlying price reaches Rs 365 at expiry, the trader will:

(A) Earn a profit of Rs 5
(B) Incur a loss of Rs 5
(C) Neither gain nor lose
(D) None of the above

147 A writer of a naked put option is generally considered to be:

(A) Bullish - pays the option premium
(B) Bullish - receives the option premium
(C) Bearish - receives the option premium
(D) Bearish - pays the option premium

148 Investors have the right to specify up to _____ nominees for their mutual fund investment folios.

(A) 1
(B) 3
(C) 5
(D) 10

149 When does a trader initiate a long butterfly spread?

(A) When the trader is positive on the underlying but indifferent to volatility
(B) When the trader is negative on the underlying but indifferent to volatility
(C) When volatility is expected to spike significantly
(D) When volatility is expected to remain low

150 An In-the-money option is _____.

(A) An option with zero-time value
(B) An option with a positive intrinsic value
(C) An option which cannot be profitably exercised by the holder immediately
(D) An option with a negative intrinsic value

PART B

Answer key

Check your answers, then score yourself below. Reasons for every answer are in Part C.

1 B	16 A	31 B	46 D	61 D	76 A	91 B	106 B	121 A	136 B
2 C	17 C	32 D	47 B	62 D	77 D	92 A	107 C	122 D	137 C
3 B	18 B	33 D	48 D	63 C	78 C	93 B	108 D	123 B	138 A
4 C	19 A	34 B	49 C	64 B	79 B	94 C	109 A	124 B	139 B
5 B	20 D	35 C	50 C	65 B	80 B	95 A	110 B	125 C	140 A
6 D	21 C	36 A	51 C	66 B	81 C	96 C	111 A	126 A	141 B
7 B	22 B	37 B	52 C	67 A	82 B	97 B	112 C	127 C	142 D
8 D	23 B	38 C	53 A	68 A	83 B	98 A	113 B	128 A	143 A
9 B	24 D	39 D	54 B	69 C	84 D	99 B	114 B	129 B	144 D
10 D	25 B	40 B	55 C	70 A	85 A	100 C	115 B	130 A	145 C
11 C	26 B	41 A	56 D	71 C	86 B	101 A	116 A	131 D	146 A
12 A	27 D	42 C	57 B	72 A	87 D	102 A	117 A	132 C	147 B
13 C	28 B	43 B	58 A	73 D	88 A	103 A	118 C	133 B	148 B
14 C	29 C	44 C	59 D	74 C	89 D	104 C	119 C	134 B	149 D
15 A	30 C	45 A	60 B	75 A	90 A	105 A	120 D	135 C	150 B

CORRECT	WRONG	SCORE = CORRECT − 0.1 × WRONG	PASS
			≥ 90

PART C

Answers explained

The correct option, the reason in one or two lines, and the chapter to revise

Q1 B — CH 14 · UNDERSTANDING THE INDEX

Low impact cost is a requirement for a stock to be included in an index

A good index stock must be liquid. Liquidity is measured by impact cost, so low impact cost is a requirement for inclusion.

Q2 C — CH 16 · INTRODUCTION TO OPTIONS

Loss of Rs 22500

Call seller: loss = (665 − 630) − 20 = ₹15 per share × 1,500 = ₹22,500 loss.

Q3 B — CH 18 · INTEREST RATES & FIXED INCOME

Decrease

A higher coupon returns more cash earlier, which shortens duration. Higher coupon → lower duration.

Q4 C — CH 17 · EQUITY F&O STRATEGIES

Take a long position in an at-the-money call and a short position in an out-of-the-money call with the same expiry

Bull call spread: buy the ATM call, sell the OTM call, same expiry. It gains if prices rise, with capped risk and reward.

Q5 B — CH 15 · FORWARDS & FUTURES

Normal, higher

In a normal (contango) market, longer-dated contracts carry more cost of carry, so they trade at a higher price.

Q6 D — CH 20 · INTEREST RATE FUTURES

Rs 30,50,000

One bond-futures lot = 2,000 bonds (FV ₹2 lakh). Value = 5 × 2,000 × ₹305 = ₹30,50,000.

Q7 B — CH 3 · LEGAL STRUCTURE OF MFS

Asset Management Company (AMC)

The AMC manages and invests the money. Trustees supervise; the custodian holds the assets; the RTA keeps records.

Q8 D — CH 16 · INTRODUCTION TO OPTIONS

The strike price is higher than the current market price

A put is in the money when the strike is above the market price: you can sell for more than the asset is worth.

Q9 B — CH 18 · INTEREST RATES & FIXED INCOME

Its impact occurs gradually over a period of time

Reinvestment risk works through interim cash flows reinvested at unknown future rates, so its effect builds up over time.

Q10 D — CH 22 · IRD STRATEGIES

Rs 100

Jan leg: sold 98.90, bought 98.75 = +0.15. Feb leg: bought 99.05, sold 98.95 = −0.10. Net +0.05 × 2,000 bonds = ₹100.

Q11 C — CH 12 · SCHEME SELECTION

Both of the above

Risk and potential return both rise from liquid → debt → hybrid → equity funds.

Q12 A — CH 9 · INVESTOR SERVICES

A SIP can be used to make fresh purchases in mutual funds

A SIP can open a new folio (even during an NFO) or add to an existing one. Close-ended schemes don't offer SIPs.

Q13 C — CH 18 · INTEREST RATES & FIXED INCOME

Interest rates decrease as the term lengthens

An inverted curve slopes down: long-term rates are lower than short-term rates.

Q14 C — CH 4 · LEGAL & REGULATORY FRAMEWORK

Timely and up to date

SEBI's ad code: content must be timely and consistent with the SID/SAI/KIM. SEBI does not approve ads.

Q15 A — CH 15 · FORWARDS & FUTURES

True

A calendar spread is counted against the near month and becomes a naked/open position when the near leg expires.

Q16 A — CH 14 · UNDERSTANDING THE INDEX

Only statements b and c

Beta measures systematic risk. A diversified market index has beta 1, so an index fund's beta should be about 1.

Q17 C — CH 4 · LEGAL & REGULATORY FRAMEWORK

Refraining from making adverse comments about an AMC or its schemes.

Rebating commission and splitting applications are both prohibited. Fair dealing means not running down AMCs or their schemes.

Q18 B — CH 10 · RISK, RETURN & PERFORMANCE

Corporate bond fund

Side-pockets are allowed only for debt and money-market instruments hit by a credit event, i.e. debt schemes like a corporate bond fund.

Q19 A — CH 9 · INVESTOR SERVICES

The scheme's NAV increases to the extent of the IDCW amount that is reinvested in the scheme

Under IDCW reinvestment, NAV falls by the IDCW (ex-dividend) and extra units are allotted. NAV does not rise.

Q20 D — CH 16 · INTRODUCTION TO OPTIONS

By taking a short position in a put option with the same exercise date and exercise price

To close a long put, sell (write) a put with the same strike and expiry; the two positions cancel.

Q21 C — CH 12 · SCHEME SELECTION

Asset allocation strategy

Asset allocation based on goals, horizon and risk profile keeps scheme selection suitable for the investor.

Q22 B — CH 5 · SCHEME RELATED INFORMATION

3, 4 and 5

SID, SAI and KIM are the mandatory documents. The factsheet is voluntary; an addendum only updates the others.

Q23 B — CH 9 · INVESTOR SERVICES

An investor is required to submit KYC documents each time they invest in a different Mutual Fund

KYC is done once through any SEBI-registered intermediary and recorded with a KRA. It is valid across all mutual funds.

Q24 D — CH 16 · INTRODUCTION TO OPTIONS

Not to exercise the option

A ₹500 call is out of the money when the stock is ₹450. Exercising would mean paying 500 for a 450 share, so let it lapse.

Q25 B — CH 12 · SCHEME SELECTION

Fund-related expenses

Liquid funds hold similar short papers, so returns differ mainly through expenses. Compare costs.

Q26 B — CH 15 · FORWARDS & FUTURES

A speculative transaction

Long Sept / short Oct futures is a calendar spread. The workbook treats spread positions as 'conservatively speculative'.

Q27 D — CH 9 · INVESTOR SERVICES

All of the above

FATCA/CRS reporting covers the holders, their direct and indirect beneficiaries and controlling persons, and the value of all their folios.

Q28 B — CH 13 · BASICS OF DERIVATIVES

Operational risk

Failed or wrong execution comes from processes, systems or people: that is operational risk.

Q29 C — CH 4 · LEGAL & REGULATORY FRAMEWORK

75%

75% of unit-holders can wind up a scheme or terminate the AMC.

Q30 C — CH 16 · INTRODUCTION TO OPTIONS

Change in option delta resulting from a change in the underlying asset's spot price

Gamma is the rate of change of delta for a change in the underlying price.

Q31 B — CH 16 · INTRODUCTION TO OPTIONS

Historical volatility

Historical volatility is computed from past prices. Implied volatility is backed out from option premiums.

Q32 D — CH 4 · LEGAL & REGULATORY FRAMEWORK

NAV at the end of the three-year period

Claimed after 3 years, unclaimed money is paid at the NAV at the end of the third year. Within 3 years: prevailing NAV.

Q33 D — CH 21 · INTEREST RATE OPTIONS

Loss of Rs. 0.20

Bond price at expiry = strike, so the put is ATM with zero intrinsic value. Net = −₹0.20 premium.

Q34 B — CH 4 · LEGAL & REGULATORY FRAMEWORK

Cancellation of registration and notification sent to all AMCs

AGNI: explanation in 3 weeks → warning letter → on a second proven violation, registration is cancelled and all AMCs informed.

Q35 C — CH 17 · EQUITY F&O STRATEGIES

A decline in market prices

A bearish investor expects prices to fall.

Q36 A — CH 5 · SCHEME RELATED INFORMATION

Fund fact sheets are published by AMCs voluntarily.

Factsheets are voluntary (an AMFI best practice), not a SEBI requirement.

Q37 B — CH 12 · SCHEME SELECTION

Arbitrage funds are not typically recommended for investors seeking capital appreciation from their investments.

Arbitrage funds earn near money-market returns, so they don't suit growth seekers. FMPs are illiquid, so liquidity seekers should avoid them.

Q38 C — CH 15 · FORWARDS & FUTURES

Open interest

Open interest is the number of contracts still outstanding at day end.

Q39 D — CH 17 · EQUITY F&O STRATEGIES

Sell the Rs 420 call along with the Rs 380 put

Expecting a range-bound price: sell an OTM call and an OTM put (short strangle) to collect both premiums.

Q40 B — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

To manage and operate an investment portfolio

A mutual fund pools money and manages an investment portfolio. It doesn't build custom portfolios or handle investors' taxes.

Q41 A — CH 13 · BASICS OF DERIVATIVES

S&P 500 Futures

A futures contract derives its value from an underlying (the S&P 500 index). CDs, shares and T-bills are themselves underlying assets.

Q42 C — CH 9 · INVESTOR SERVICES

The units being offered as lien must not have a lock-in

Units under lock-in (e.g. ELSS) cannot be pledged. All holders must sign the pledge form.

Q43 B — CH 11 · SCHEME PERFORMANCE

Banking funds

Bankex is a banking-sector index, the natural benchmark for banking/sector funds.

Q44 C — CH 12 · SCHEME SELECTION

Sector Funds

Sector funds invest in one sector only, so there is no multi-sector exposure.

Q45 A — CH 18 · INTEREST RATES & FIXED INCOME

The issue price of the security

Price sensitivity depends on coupon, residual maturity and the yield level, not the original issue price.

Q46 D — CH 5 · SCHEME RELATED INFORMATION

Scheme Information Document (SID)

Fundamental attributes (type, objective, terms of issue) are set out in the SID.

Q47 B — CH 16 · INTRODUCTION TO OPTIONS

Binomial

The binomial model values an option by working step by step through a price tree, an iterative method.

Q48 D — CH 6 · FUND DISTRIBUTION

The distributor must have completed the KYD process

Distributors complete KYD (Know Your Distributor) with AMFI before getting an ARN and empanelling with AMCs.

Q49 C — CH 5 · SCHEME RELATED INFORMATION

Both of the above are correct

SAI: updated within 3 months of each financial year end; material changes uploaded on an ongoing basis to the MF and AMFI websites.

Q50 C — CH 10 · RISK, RETURN & PERFORMANCE

Growth-oriented style

Picking companies for expanding capacity and future earnings growth is a growth style.

Q51 C — CH 17 · EQUITY F&O STRATEGIES

Covered Call Writing

Owning the stock and selling a call against it is covered call writing.

Q52 C — CH 16 · INTRODUCTION TO OPTIONS

Rs 43

A put buyer can lose at most the premium paid: ₹43.

Q53 A — CH 21 · INTEREST RATE OPTIONS

0.10 Profit

Call payoff 75.50 − 75.25 = 0.25 less 0.10 premium = +0.15. Put expires worthless, −0.05. Net +0.10.

Q54 B — CH 6 · FUND DISTRIBUTION

A commission received for the duration of the investor's investment in the scheme

Trail is paid as a % of assets for as long as the investor stays invested.

Q55 C — CH 16 · INTRODUCTION TO OPTIONS

The change in an option's premium for a one-unit change in the spot price of the underlying asset

Delta is the change in premium for a ₹1 change in the underlying price.

Q56 D — CH 7 · NAV, TER & PRICING

Index mutual funds

NAV is computed to 4 decimals for index funds, liquid funds and other debt funds; at least 2 decimals for equity and balanced funds.

Q57 B — CH 18 · INTEREST RATES & FIXED INCOME

Only statement b

The workbook stresses that YTM is not a true measure of return but another way of quoting a bond's price.

Q58 A — CH 12 · SCHEME SELECTION

Concentration risk

One-sector portfolios carry concentration risk.

Q59 D — CH 20 · INTEREST RATE FUTURES

All of the above

Cash-settled IRFs exist on 6-, 10- and 13-year GoI securities (permitted from June 2015).

Q60 B — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

Units of all Exchange Traded Funds (ETFs)

ETFs are listed and trade throughout the day like shares.

Q61 D — CH 15 · FORWARDS & FUTURES

Daily settlement price

Futures are marked to market daily at the daily settlement price.

Q62 D — CH 16 · INTRODUCTION TO OPTIONS

Time value

As expiry nears, an option loses time value (time decay).

Q63 C — CH 1 · INVESTMENT LANDSCAPE

Gold coins

Gold coins are physical assets. MBS, gold ETFs and commodity derivatives are financial assets.

Q64 B — CH 9 · INVESTOR SERVICES

The NAV of the business day on which the invested funds are available for use

For purchases in non-liquid schemes of any amount, the NAV is that of the day the funds are available for use (before cut-off).

Q65 B — CH 20 · INTEREST RATE FUTURES

Notional Bond Futures

Notional bond futures are based on a theoretical (notional) GoI bond, not a specific physical bond.

Q66 B — CH 17 · EQUITY F&O STRATEGIES

The weighted average of the constituent / individual security betas based on their portfolio values

Portfolio beta = weighted average of the individual betas, weighted by value.

Q67 A — CH 1 · INVESTMENT LANDSCAPE

Its market price will fall

When market rates rise above a bond's coupon, its price falls to make its yield competitive.

Q68 A — CH 6 · FUND DISTRIBUTION

A distributor having Rs 75 crore of AUM from non-institutional investors

Due diligence applies above ₹100 crore non-institutional AUM, more than 20 locations or more than ₹1 crore commission. ₹75 crore AUM is below the trigger.

Q69 C — CH 1 · INVESTMENT LANDSCAPE

Fixed Asset Allocation

Rebalancing to keep a constant mix is a fixed (strategic) allocation. Dynamic allocation changes the mix.

Q70 A — CH 15 · FORWARDS & FUTURES

5

Spread lots = the smaller of the opposite legs: 5. The other 10 long lots are naked.

Q71 C — CH 15 · FORWARDS & FUTURES

Rs. 4,30,000

Contract value = futures price × multiplier = 8,600 × 50 = ₹4,30,000.

Q72 A — CH 13 · BASICS OF DERIVATIVES

Exposed; not available

Forwards are private OTC deals with no clearing-corporation guarantee, so counterparty risk remains.

Q73 D — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

Specialized Investment Funds (SIF)

₹10 lakh is the SIF minimum per investor (PAN) across all SIF strategies of the AMC.

Q74 C — CH 12 · SCHEME SELECTION

Credit risk, arising from changes in the creditworthiness of issuers

Gilt → corporate bond → credit risk funds: the ladder rises with credit (default) risk.

Q75 A — CH 13 · BASICS OF DERIVATIVES

To facilitate transactions between buyers and sellers

The exchange provides the trading platform. Settlement is done through the clearing corporation.

Q76 A — CH 16 · INTRODUCTION TO OPTIONS

Call option only

A call gives the right to buy; a put gives the right to sell.

Q77 D — CH 15 · FORWARDS & FUTURES

Futures contracts can be squared off at any time before expiry.

Futures are standardised and exchange-traded, and can be squared off any time before expiry.

Q78 C — CH 8 · TAXATION

Multi-cap mutual fund

STT applies on sale/redemption of equity-oriented fund units (a multi-cap fund), not debt funds.

Q79 B — CH 18 · INTEREST RATES & FIXED INCOME

Staggered maturities

Bonds with staggered maturities repay principal in instalments over time.

Q80 B — CH 15 · FORWARDS & FUTURES

A short position

An opening sell creates or increases a short position.

Q81 C — CH 1 · INVESTMENT LANDSCAPE

Decreases

Bond prices move opposite to interest rates.

Q82 B — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

Its investment policy

Limits on how the money is invested (e.g. derivatives ≤ 10%) are part of the investment policy (asset allocation and style).

Q83 B — CH 9 · INVESTOR SERVICES

A specific resolution passed by the company's Board

A company needs a Board resolution authorising the investment and the signatories.

Q84 D — CH 9 · INVESTOR SERVICES

The mutual fund directly

Bank account changes are registered with each mutual fund. Name, address and contact changes go through the KRA.

Q85 A — CH 7 · NAV, TER & PRICING

The AMC's Board of Directors

Valuation methods for each type of security are approved by the AMC's Board (fair valuation principle 2).

Q86 B — CH 16 · INTRODUCTION TO OPTIONS

Decreases

A lower strike makes a put less valuable (less in the money), so its premium falls.

Q87 D — CH 20 · INTEREST RATE FUTURES

None of these options

Exchange T-bill futures are on the 91-day T-bill, not 7, 14 or 182 days.

Q88 A — CH 20 · INTEREST RATE FUTURES

Interest rate

Overnight MIBOR futures are quoted as an interest rate.

Q89 D — CH 14 · UNDERSTANDING THE INDEX

Price-weighted index

In a price-weighted index, higher-priced stocks carry more weight.

Q90 A — CH 7 · NAV, TER & PRICING

SEBI

SEBI's MF Regulations set the TER limits.

Q91 B — CH 3 · LEGAL STRUCTURE OF MFS

Compliance Officer

The Compliance Officer ensures legal compliance, signs the due-diligence certificate and reports breaches to the trustees.

Q92 A — CH 15 · FORWARDS & FUTURES

Linear

Futures pay off one-for-one with the underlying: a linear pay-off.

Q93 B — CH 12 · SCHEME SELECTION

Gold ETF

A gold ETF tracks the gold price. Gold-mining or sector funds track company shares.

Q94 C — CH 19 · INTEREST RATE DERIVATIVES

An Interest Rate Swap

Exchanging fixed-rate for floating-rate interest payments is an interest rate swap.

Q95 A — CH 16 · INTRODUCTION TO OPTIONS

The payoff from an option contract is linear.

Option pay-offs are non-linear, so 'the payoff is linear' is the incorrect statement.

Q96 C — CH 13 · BASICS OF DERIVATIVES

Speculators take on risk, while hedgers seek to reduce it

Hedgers reduce risk; speculators take it on.

Q97 B — CH 16 · INTRODUCTION TO OPTIONS

Decrease the put option premium

Higher interest rates reduce the present value of the strike, so put premiums fall.

Q98 A — CH 4 · LEGAL & REGULATORY FRAMEWORK

SCORES does not permit investors to submit complaints physically

SCORES accepts physical complaints too: they are scanned and uploaded. So A is false.

Q99 B — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

A beneficial owner of the assets held by the fund

Unit-holders are beneficial owners of the scheme's assets, not depositors or AMC shareholders.

Q100 C — CH 17 · EQUITY F&O STRATEGIES

Taking either a long or a short futures position

Holders of shares sell futures; those who must buy later go long. Either side can hedge.

Q101 A — CH 5 · SCHEME RELATED INFORMATION

An Addendum

Interim changes to SID/SAI/KIM are made through an addendum.

Q102 A — CH 16 · INTRODUCTION TO OPTIONS

It cannot be traded

An expired option no longer exists and cannot be traded.

Q103 A — CH 13 · BASICS OF DERIVATIVES

Reducing certain types of risk

Derivatives transfer and reduce specific risks. They don't eliminate all risk.

Q104 C — CH 22 · IRD STRATEGIES

Both of the above

Fearing higher prices (lower yields) before a purchase: buy bond futures or a call. Both lock in today's level.

Q105 A — CH 10 · RISK, RETURN & PERFORMANCE

The involvement of an approved intermediary eliminates all risks associated with securities lending.

Lending through an approved intermediary still carries counterparty risk. It does not remove all risk.

Q106 B — CH 1 · INVESTMENT LANDSCAPE

An aggressive investor

Aggressive investors accept more risk for higher potential returns.

Q107 C — CH 16 · INTRODUCTION TO OPTIONS

European call option

A European option can be exercised only on the expiry date; a call is the right to buy.

Q108 D — CH 15 · FORWARDS & FUTURES

Contango

Far month priced above near month (futures above spot) is contango.

Q109 A — CH 10 · RISK, RETURN & PERFORMANCE

Systematic risk only

Diversification removes specific risk; systematic (market) risk remains.

Q110 B — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

10% to 25% of the total assets

Conservative hybrid: 10–25% equity, 75–90% debt.

Q111 A — CH 4 · LEGAL & REGULATORY FRAMEWORK

Granting approval for AMC fund manager appointments

SEBI regulates and frames policy; AMCs appoint their own fund managers.

Q112 C — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

The fund has a fixed unit capital

After the NFO, units trade on the exchange between investors, so unit capital stays fixed.

Q113 B — CH 10 · RISK, RETURN & PERFORMANCE

Variance

Variance (and SD) measure how much periodic returns fluctuate around their own average.

Q114 B — CH 5 · SCHEME RELATED INFORMATION

Daily

TER is disclosed daily on the AMC and AMFI websites.

Q115 B — CH 11 · SCHEME PERFORMANCE

Gilt Funds

A G-sec index suits gilt funds, which invest only in government securities.

Q116 A — CH 11 · SCHEME PERFORMANCE

Tracking error

Tracking error (SD of the excess return over the index) shows how closely an index fund follows its index.

Q117 A — CH 18 · INTEREST RATES & FIXED INCOME

Flattening

Long rates falling relative to short rates narrows the gap: flattening.

Q118 C — CH 14 · UNDERSTANDING THE INDEX

Impact cost

Impact cost is the hidden cost of illiquidity: buying above and selling below the ideal price. It is not a charge you pay.

Q119 C — CH 17 · EQUITY F&O STRATEGIES

Purchasing a call and a put option with an identical strike price

Long straddle: buy a call and a put with the same strike and expiry.

Q120 D — CH 13 · BASICS OF DERIVATIVES

Preference share

A preference share is a security, not a derivative.

Q121 A — CH 13 · BASICS OF DERIVATIVES

The exchange

The exchange designs standardised futures contracts.

Q122 D — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

Equity component moves down, debt component goes up

A Life Cycle fund follows a glide path: equity falls and debt rises as maturity nears.

Q123 B — CH 9 · INVESTOR SERVICES

Foreign investors are eligible to invest in equity schemes of mutual funds once they complete the necessary KYC formalities

Foreign investors (QFIs/FPIs) can invest after KYC. PIOs may invest on a repatriable basis.

Q124 B — CH 14 · UNDERSTANDING THE INDEX

A specialised agency

An index should be computed by an independent third party and professionally maintained, i.e. by a specialised agency.

Q125 C — CH 11 · SCHEME PERFORMANCE

AMFI website

AMFI's website carries performance data for all schemes across the industry.

Q126 A — CH 8 · TAXATION

Capital gains are taxed according to the applicable provisions of the Income Tax Act.

Each SWP withdrawal is a redemption, so capital gains are taxed under the Income Tax Act.

Q127 C — CH 21 · INTEREST RATE OPTIONS

Profit of Rs 0.20

Bond at 798.90 is above the 798.50 strike, so the put expires worthless and the writer keeps ₹0.20.

Q128 A — CH 1 · INVESTMENT LANDSCAPE

Optimism bias

Believing you can always beat the market is over-optimism or overconfidence about your own skill.

Q129 B — CH 6 · FUND DISTRIBUTION

False

The ARN is issued by AMFI (one per distributor), not by each AMC.

Q130 A — CH 6 · FUND DISTRIBUTION

True

Direct plans carry no distribution cost or commission.

Q131 D — CH 15 · FORWARDS & FUTURES

Profit of Rs. 40,500

Short at 570, covered at 543: +₹27 × 1,500 = ₹40,500 profit.

Q132 C — CH 2 · CONCEPT & ROLE OF A MUTUAL FUND

Both of the above are correct

Both are true: schemes offer growth and IDCW options, and interval funds open periodically so they are more liquid than close-ended funds.

Q133 B — CH 5 · SCHEME RELATED INFORMATION

Fund factsheet

Factsheets are voluntary marketing-cum-information documents, not statutory.

Q134 B — CH 11 · SCHEME PERFORMANCE

Since tracking error is determined by the regulator SEBI, all index funds have the same tracking error.

Tracking error differs by fund (cash, costs, rebalancing). SEBI does not fix one figure for all.

Q135 C — CH 13 · BASICS OF DERIVATIVES

Inadequate disaster planning

Operational risk covers failed systems, human error and inadequate disaster planning.

Q136 B — CH 1 · INVESTMENT LANDSCAPE

The interest rate on a bank fixed deposit remains fixed for the agreed tenure.

An FD rate is fixed for the tenure. FD interest is taxable.

Q137 C — CH 16 · INTRODUCTION TO OPTIONS

The option's intrinsic value

At expiry, time value is zero, so an option is worth only its intrinsic value.

Q138 A — CH 16 · INTRODUCTION TO OPTIONS

The premium increases

More time to expiry means more time value, so the put premium rises (other things equal).

Q139 B — CH 18 · INTEREST RATES & FIXED INCOME

Face value

Coupon is paid as a % of face value.

Q140 A — CH 22 · IRD STRATEGIES

Short the GOI bond in the underlying market and go long on its corresponding futures contract

Reverse arbitrage (futures cheap vs bond): short the bond, buy the futures.

Q141 B — CH 15 · FORWARDS & FUTURES

A rising futures price along with rising open interest

Rising futures price with rising open interest signals new buying: bullish.

Q142 D — CH 16 · INTRODUCTION TO OPTIONS

Loss of Rs 20000

Put writer: (1,000 − 850) − 110 = ₹40 loss × 500 = ₹20,000 loss.

Q143 A — CH 13 · BASICS OF DERIVATIVES

Futures contracts have standardized terms, whereas forward contracts can be customized for specific clients

Futures are standardised; forwards are customised bilateral contracts.

Q144 D — CH 7 · NAV, TER & PRICING

Distributable surplus generated by the scheme

IDCW comes only from distributable surplus. Unrealised (MTM) gains are excluded.

Q145 C — CH 5 · SCHEME RELATED INFORMATION

Scheme Information Document

General and specific risk factors are disclosed in the SID.

Q146 A — CH 15 · FORWARDS & FUTURES

Earn a profit of Rs 5

Long futures at 360, settles at 365: +₹5.

Q147 B — CH 16 · INTRODUCTION TO OPTIONS

Bullish - receives the option premium

A naked put writer receives the premium and profits if the price stays up: bullish.

Q148 B — CH 4 · LEGAL & REGULATORY FRAMEWORK

3

Investors can appoint up to 3 nominees in a folio, with a percentage share for each.

Q149 D — CH 17 · EQUITY F&O STRATEGIES

When volatility is expected to remain low

A long butterfly profits when the price stays near the middle strike, i.e. when volatility stays low.

Q150 B — CH 16 · INTRODUCTION TO OPTIONS

An option with a positive intrinsic value

An ITM option has positive intrinsic value.

PART D

Answer sheet

Fill one bubble per question. Leave it blank if you don't want to risk −0.10.

Name	Date	Start time	Score

1 (A) (B) (C) (D)	31 (A) (B) (C) (D)	61 (A) (B) (C) (D)	91 (A) (B) (C) (D)	121 (A) (B) (C) (D)
2 (A) (B) (C) (D)	32 (A) (B) (C) (D)	62 (A) (B) (C) (D)	92 (A) (B) (C) (D)	122 (A) (B) (C) (D)
3 (A) (B) (C) (D)	33 (A) (B) (C) (D)	63 (A) (B) (C) (D)	93 (A) (B) (C) (D)	123 (A) (B) (C) (D)
4 (A) (B) (C) (D)	34 (A) (B) (C) (D)	64 (A) (B) (C) (D)	94 (A) (B) (C) (D)	124 (A) (B) (C) (D)
5 (A) (B) (C) (D)	35 (A) (B) (C) (D)	65 (A) (B) (C) (D)	95 (A) (B) (C) (D)	125 (A) (B) (C) (D)
6 (A) (B) (C) (D)	36 (A) (B) (C) (D)	66 (A) (B) (C) (D)	96 (A) (B) (C) (D)	126 (A) (B) (C) (D)
7 (A) (B) (C) (D)	37 (A) (B) (C) (D)	67 (A) (B) (C) (D)	97 (A) (B) (C) (D)	127 (A) (B) (C) (D)
8 (A) (B) (C) (D)	38 (A) (B) (C) (D)	68 (A) (B) (C) (D)	98 (A) (B) (C) (D)	128 (A) (B) (C) (D)
9 (A) (B) (C) (D)	39 (A) (B) (C) (D)	69 (A) (B) (C) (D)	99 (A) (B) (C) (D)	129 (A) (B) (C) (D)
10 (A) (B) (C) (D)	40 (A) (B) (C) (D)	70 (A) (B) (C) (D)	100 (A) (B) (C) (D)	130 (A) (B) (C) (D)
11 (A) (B) (C) (D)	41 (A) (B) (C) (D)	71 (A) (B) (C) (D)	101 (A) (B) (C) (D)	131 (A) (B) (C) (D)
12 (A) (B) (C) (D)	42 (A) (B) (C) (D)	72 (A) (B) (C) (D)	102 (A) (B) (C) (D)	132 (A) (B) (C) (D)
13 (A) (B) (C) (D)	43 (A) (B) (C) (D)	73 (A) (B) (C) (D)	103 (A) (B) (C) (D)	133 (A) (B) (C) (D)
14 (A) (B) (C) (D)	44 (A) (B) (C) (D)	74 (A) (B) (C) (D)	104 (A) (B) (C) (D)	134 (A) (B) (C) (D)
15 (A) (B) (C) (D)	45 (A) (B) (C) (D)	75 (A) (B) (C) (D)	105 (A) (B) (C) (D)	135 (A) (B) (C) (D)
16 (A) (B) (C) (D)	46 (A) (B) (C) (D)	76 (A) (B) (C) (D)	106 (A) (B) (C) (D)	136 (A) (B) (C) (D)
17 (A) (B) (C) (D)	47 (A) (B) (C) (D)	77 (A) (B) (C) (D)	107 (A) (B) (C) (D)	137 (A) (B) (C) (D)
18 (A) (B) (C) (D)	48 (A) (B) (C) (D)	78 (A) (B) (C) (D)	108 (A) (B) (C) (D)	138 (A) (B) (C) (D)
19 (A) (B) (C) (D)	49 (A) (B) (C) (D)	79 (A) (B) (C) (D)	109 (A) (B) (C) (D)	139 (A) (B) (C) (D)
20 (A) (B) (C) (D)	50 (A) (B) (C) (D)	80 (A) (B) (C) (D)	110 (A) (B) (C) (D)	140 (A) (B) (C) (D)
21 (A) (B) (C) (D)	51 (A) (B) (C) (D)	81 (A) (B) (C) (D)	111 (A) (B) (C) (D)	141 (A) (B) (C) (D)
22 (A) (B) (C) (D)	52 (A) (B) (C) (D)	82 (A) (B) (C) (D)	112 (A) (B) (C) (D)	142 (A) (B) (C) (D)
23 (A) (B) (C) (D)	53 (A) (B) (C) (D)	83 (A) (B) (C) (D)	113 (A) (B) (C) (D)	143 (A) (B) (C) (D)
24 (A) (B) (C) (D)	54 (A) (B) (C) (D)	84 (A) (B) (C) (D)	114 (A) (B) (C) (D)	144 (A) (B) (C) (D)
25 (A) (B) (C) (D)	55 (A) (B) (C) (D)	85 (A) (B) (C) (D)	115 (A) (B) (C) (D)	145 (A) (B) (C) (D)
26 (A) (B) (C) (D)	56 (A) (B) (C) (D)	86 (A) (B) (C) (D)	116 (A) (B) (C) (D)	146 (A) (B) (C) (D)
27 (A) (B) (C) (D)	57 (A) (B) (C) (D)	87 (A) (B) (C) (D)	117 (A) (B) (C) (D)	147 (A) (B) (C) (D)
28 (A) (B) (C) (D)	58 (A) (B) (C) (D)	88 (A) (B) (C) (D)	118 (A) (B) (C) (D)	148 (A) (B) (C) (D)
29 (A) (B) (C) (D)	59 (A) (B) (C) (D)	89 (A) (B) (C) (D)	119 (A) (B) (C) (D)	149 (A) (B) (C) (D)
30 (A) (B) (C) (D)	60 (A) (B) (C) (D)	90 (A) (B) (C) (D)	120 (A) (B) (C) (D)	150 (A) (B) (C) (D)

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