

ONLINE PROGRAMME EXAMINATIONS
M.B.A. DEGREE EXAMINATION, MAY 2025
Second Year - Fourth Semester
FINANCIAL MANAGEMENT
INVESTMENT AND DERIVATIVES MARKET
(CBCS - 2020 onwards)

Time : 2 Hours

Maximum : 75 Marks

PART - A

(33 X 1 = 33)

Answer **all** the questions.

1. What is the primary characteristic that distinguishes debt from equity in financial markets?

(a)Ownership rights	(b)Fixed interest payments
(c)Voting rights	(d)Dividend payments
2. Which market provides lenders with a claim on a company's assets and a fixed interest payment?

(a)Equity market	(b)Money market
(c)Debt market	(d)Capital market
3. Which of the following is not a financial derivative?

(a)Stock	(b)Futures
(c)Options	(d)Forward contracts
4. To say that the forward market lacks liquidity means that

(a)Forward contracts usually result in losses.	(b)Forward contracts cannot be turned into cash.
(c)It may be difficult to make the transaction.	(d)Forward contracts cannot be sold for cash.
5. What is the primary meaning of "Convexity" in finance?

(a)A measure of investment risk	(b)The return generated by an investment
(c)The correlation between two assets	(d)The volatility of a financial instrument

6. In the context of Convexity, what does a correlation coefficient of +1 indicate?
- (a) Perfect positive correlation
(b) Perfect negative correlation
(c) No correlation
(d) High risk
7. What is the primary objective of passive immunization in debt portfolio management?
- (a) Maximize capital gains
(b) Minimize interest rate risk
(c) Achieve high returns
(d) Minimize credit risk
8. In the context of debt portfolio management, what does immunization strategy aim to achieve?
- (a) Eliminate all risks from the portfolio
(b) Protect the portfolio from interest rate movements
(c) Maximize credit risk exposure
(d) Minimize portfolio duration
9. Which of the following is a potential risk in bond trading that can be mitigated through the use of swaps?
- (a) Currency risk
(b) Interest rate risk
(c) Market risk
(d) All of the above
10. What risk is most closely associated with bond swaps, particularly when exchanging bonds with different issuers?
- (a) Market risk
(b) Credit risk
(c) Inflation risk
(d) Liquidity risk

11. Which of the following is a key factor governing the equity market?
- (a) Inflation rate
 - (b) Bond yields
 - (c) Gross domestic product (GDP)
 - (d) All of the above
12. Which type of risk is inherent to the entire equity market and cannot be diversified away?
- (a) Specific risk
 - (b) Market risk
 - (c) Credit risk
 - (d) Liquidity risk
13. In the context of the Constant Growth Model, the "g" represents:
- (a) The required rate of return
 - (b) The dividend yield
 - (c) The expected growth rate of dividends
 - (d) The risk-free rate
14. What is a key assumption of the Zero Growth Model?
- (a) Dividends will grow at a constant rate indefinitely.
 - (b) Dividends will not grow at all (zero growth).
 - (c) Dividends will fluctuate randomly.
 - (d) Dividends will decrease over time.
15. The forward P/E ratio is based on:
- (a) Historical earnings
 - (b) Projected future earnings
 - (c) Dividends per share
 - (d) Book value per share

16. What does a low P/E ratio generally indicate about market sentiment towards a stock?
- (a) High market optimism
 - (b) High earnings growth expectations
 - (c) Low market expectations or undervaluation
 - (d) Stable earnings
17. What primarily contributes to the time value of an option?
- (a) Intrinsic value
 - (b) Dividend yield
 - (c) Interest rates
 - (d) Strike price
18. Which of the following factors has a direct impact on the premium of an option?
- (a) Strike price
 - (b) Time to expiration
 - (c) Dividend yield
 - (d) All of the above
19. If the stock price is below the strike price of a call option at expiration, what is the profit/loss for the call option holder?
- (a) Profit equal to the premium paid
 - (b) No profit, no loss
 - (c) Loss equal to the premium paid
 - (d) Unlimited loss
20. For a call option holder, the maximum potential profit is:
- (a) Unlimited
 - (b) The difference between the stock price and the strike price
 - (c) The premium received
 - (d) The premium paid

21. What does the term "underlying asset" refer to in the context of index options?
- (a)The strike price of the option
 - (b)The market index on which the option is based
 - (c)The expiration date of the option
 - (d)The premium paid for the option
22. What is a common use of index options for investors?
- (a)Speculating on individual stock prices
 - (b)Hedging against market-wide price fluctuations
 - (c)Generating dividend income
 - (d)Exercising voting rights in companies
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24. How are index options typically settled?
- (a)Cash settlement
 - (b)Physical delivery of the underlying assets
 - (c)Barter settlement
 - (d)Settled through cryptocurrency
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26. What does the term "Future Market" refer to in finance?

- (a) A market where only stocks are traded
- (b) A market for trading financial derivatives contracts
- (c) A market for buying and selling physical commodities
- (d) A market exclusively for government securities

27. In the context of evaluating returns in futures trading, what does a positive return indicate?

- (a) A profitable trade
- (b) A loss in the trade
- (c) No change in the financial position
- (d) A decrease in market volatility

28. In terms of risk, futures contracts are generally considered:

- (a) Less risky than options
- (b) Equally risky as options
- (c) More risky than options
- (d) Risk-free

29. Compared to options, futures contracts are generally considered to have:

- (a) Higher potential returns and higher risk
- (b) Lower potential returns and lower risk
- (c) Higher potential returns and lower risk
- (d) Lower potential returns and higher risk

30. Which of the following is a common instrument traded in the Government Securities Market?

- (a) Corporate bonds
- (b) Equity options
- (c) Treasury bills
- (d) Cryptocurrencies

31. What is the primary function of options in the government securities market?

- (a) To hedge against interest rate risk
- (b) To provide leverage for trading government bonds
- (c) To speculate on commodity prices
- (d) To eliminate credit risk

32. In the context of government securities, what are T-Bonds and T-Notes?

- (a) Types of Treasury bills
- (b) Types of corporate bonds
- (c) Types of government bonds with different maturities
- (d) Types of municipal bonds

33. Apart from being investment instruments, what is another crucial role of government securities?

- (a) Generating corporate profits
- (b) Funding government expenditures
- (c) Eliminating market volatility
- (d) Speculating on commodity prices

PART - B

(7 X 6 = 42)

Answer **all** questions choosing either (a) or (b).

34. (a) Distinguish between debt and equity market .

[OR]

(b) State the significance of debt pricing theorems.

35. (a) Explain risk and return structure of convexity.

[OR]

(b) What are the importance of debt portfolio management of an organisation?

36. (a) write note on (a) Bond basics (b) Bond risks (c) Bond swaps.

[OR]

(b) What are the factors governing equity market growth?

37. (a) State the Zero growth models for equity valuation.

[OR]

(b) Explain Earning based models.

38. (a) How importance of options market for growth of investment?

[OR]

(b) Explain profit and losses of some option strategies.

39. (a) State the meaning and features of index options

[OR]

(b) What are the benefits of the index based futures?

40. (a) Justify futures Vs Options

[OR]

(b) Explain operations and significance of government securities.

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PART - A

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Answer **all** the questions.

1. Which of the following is not one of the Six-S principles of growth management?

(a) Standardize	(b) Sort
(c) Strategize	(d) Sustain

2. Which step in the Six-S framework involves arranging items in a manner that promotes efficient workflow?

(a) Sort	(b) Set in Order
(c) Shine	(d) Standardize

3. Which of the following is considered a growth incentive for businesses?

(a) Increased competition	(b) High taxation
(c) Access to new markets	(d) Economic downturns

4. Which factor is often considered a growth barrier for businesses?

(a) Skilled workforce availability	(b) Technological advancements
(c) Access to capital	(d) Diversified product range

5. Which strategy involves increasing market share by merging with or acquiring competitors?

(a) Horizontal integration	(b) Concentric diversification
(c) Conglomerate diversification	(d) Forward integration

6. What is a key focus of improvement strategies in business?
- (a)Expanding into unrelated industries (b)Reducing market share
(c)Enhancing operational efficiency (d)Increasing debt burden
7. Which strategy emphasizes creating uncontested market space and making competition irrelevant by creating new market demand?
- (a)Organic strategy (b)Blue Ocean Strategy
(c)Ansoff's Model (d)Red Ocean Strategy
8. Ansoff's Matrix includes which of the following growth strategies?
- (a)Market penetration, market development, product development, diversification (b)Cost leadership, differentiation, focus
(c)Horizontal integration, vertical integration, conglomerate diversification (d)Blue Ocean Strategy, Red Ocean Strategy, Green Ocean Strategy, Yellow Ocean Strategy
9. The McKinsey 7S model primarily focuses on:
- (a)Analyzing competitive forces (b)Assessing market trends
(c)Aligning organizational elements for success (d)Evaluating internal and external factors
10. Which framework is primarily used for assessing the macro-environmental factors affecting a business?
- (a)McKinsey Model (b)SWOT Analysis
(c)TOWS Matrix (d)PESTLE Analysis

11. Which term refers to the process of breaking away from the status quo and initiating growth in an organization?
- (a) Staging growth (b) Inertia escape
(c) Strategic stagnation (d) Incremental development
12. What characterizes a supportive organizational culture?
- (a) Resistance to change and innovation (b) Hierarchical structure with rigid communication channels
(c) Encouragement of collaboration, learning, and adaptability (d) Emphasis on individual achievements over team efforts
13. How do supportive systems and processes impact organizational performance?
- (a) By stifling innovation and creativity (b) By creating bureaucratic hurdles
(c) By fostering an environment conducive to growth and efficiency (d) By promoting individualistic approaches
14. In the context of competition, what does having a strategic core entail?
- (a) Relying solely on traditional methods (b) Continuously adapting and improving core competencies
(c) Avoiding any changes to established practices (d) Maintaining a stagnant organizational culture
15. What is a primary purpose of employee development plans in an organization?
- (a) Restricting career progression (b) Stifling innovation
(c) Enhancing skills and capabilities (d) Reducing workforce engagement

16. Which aspect is essential for effectively monitoring organizational growth?
- (a) Ignoring performance metrics
 - (b) Consistent evaluation and analysis
 - (c) Infrequent reviews of progress
 - (d) Avoiding setting benchmarks
17. What characterizes the phase of "growth through coordination" in Greiner's model?
- (a) Increased autonomy among departments
 - (b) Introduction of new innovative processes
 - (c) Enhanced coordination and communication
 - (d) Centralized decision-making
18. In Greiner's model, what triggers the crisis-induced growth phases?
- (a) Lack of innovation
 - (b) Organizational stagnation
 - (c) Market saturation
 - (d) Management inefficiency
19. What is a primary challenge associated with managing growth fatigue in an organization?
- (a) Sustaining a steady growth pace
 - (b) Avoiding burnout and loss of momentum
 - (c) Ignoring employee feedback
 - (d) Encouraging rapid expansion
20. In the context of strategic growth, what does "alert and advancing" primarily emphasize?
- (a) Reacting slowly to market changes
 - (b) Remaining passive amidst industry shifts
 - (c) Proactively adapting and evolving strategies
 - (d) Relying solely on established practices

21. How does focusing on the product & brand domain contribute to growth?

- | | |
|---|----------------------------------|
| (a)By reducing brand visibility | (b)By decreasing product quality |
| (c)By enhancing brand value and product differentiation | (d)By limiting innovation |

22. How does addressing the market & competition domain aid in growth?

- | | |
|--------------------------------|--|
| (a)By ignoring market trends | (b)By understanding customer needs and market trends |
| (c)By limiting market outreach | (d)By avoiding competitive analysis |

23. How does the networks & relationship domain contribute to growth?

- | | |
|---|--|
| (a)By isolating the business from external collaborations | (b)By restricting communication channels |
| (c)By fostering partnerships and collaborations | (d)By limiting customer engagement |

24. How does the geography & spread domain impact growth?

- | | |
|--|--|
| (a)By confining market presence to limited regions | (b)By expanding market reach and diversifying into new territories |
| (c)By avoiding global expansion | (d)By restricting supply chain management |

25. How does sustaining growth differ from initial growth phases?

- | | |
|--|----------------------------------|
| (a)By promoting stagnant practices | (b)By avoiding further expansion |
| (c)By focusing on long-term sustainability and consistent progress | (d)By halting innovation |

26. What's a key challenge in managing rapid growth within an organization?
- (a) Restricting innovation and expansion
 - (b) Embracing a slow-paced approach
 - (c) Ensuring scalability and managing resources effectively
 - (d) Avoiding market expansion
27. What role does a passion for growth play in organizational development?
- (a) Encouraging stagnation and resistance to change
 - (b) Fostering a culture of continuous improvement and innovation
 - (c) Limiting employee engagement and development
 - (d) Avoiding long-term objectives
28. How does the finance & profitability domain impact growth?
- (a) By hindering investment opportunities
 - (b) By ensuring sustainable financial health and fostering investment
 - (c) By limiting revenue generation
 - (d) By avoiding profit reinvestment
29. What's a crucial aspect for ensuring growth within the finance & profitability domain?
- (a) Overspending without strategic planning
 - (b) Neglecting profitability analysis
 - (c) Efficient financial management and reinvestment strategies
 - (d) Avoiding financial diversification
30. How does the people & organizational domain impact growth?
- (a) By hindering workforce development and engagement
 - (b) By fostering a culture of innovation, development, and engagement
 - (c) By limiting employee autonomy and growth opportunities
 - (d) By avoiding leadership development

31. What's a crucial aspect of managing the people & organizational domain for growth?
- (a) Limiting employee empowerment (b) Encouraging continuous learning and development
(c) Avoiding diversity and inclusion initiatives (d) Neglecting organizational culture
32. How does effectiveness enhancement contribute to organizational growth?
- (a) By decreasing customer satisfaction (b) By optimizing processes and delivering better outcomes
(c) By avoiding customer-centric approaches (d) By ignoring quality standards
33. What's a crucial consideration for enhancing effectiveness within an organization?
- (a) Reducing customer engagement (b) Emphasizing rigid processes over adaptability
(c) Continuous evaluation and improvement of workflows (d) Avoiding feedback mechanisms

PART - B

(7 X 6 = 42)

Answer **all** questions choosing either (a) or (b).

34. (a) Illustrate each stage of the Six-S framework and its relevance in fostering growth.
[OR]
(b) Explain the concept of entry enticements and barriers in the context of organizational growth.
35. (a) Discuss the importance of improvement strategies in organizational development.
[OR]
(b) Discuss the fundamental concepts and principles behind the Blue Ocean Strategy. Compare and contrast it with traditional competitive strategies.
36. (a) Explain the McKinsey Model and its significance in strategic planning for organizational growth.
[OR]
(b) Illustrate with real-world examples how inertia escape has been pivotal in transforming organizations and fostering innovation.
37. (a) Examine the importance of supportive systems and processes in organizational development.
[OR]
(b) Examine the role of monitoring growth metrics in sustaining organizational momentum.
38. (a) Discuss the concept of synchronizing for growth within an organizational context.
[OR]
(b) Discuss the concept of "steady and speed" as a strategy for organizational growth.
39. (a) Examine the strategies for securing growth in the market and competition domain.
[OR]

(b) Discuss the importance of the geography and spread domain in organizational expansion.

40. (a) In what ways does organizational effectiveness differ from operational efficiency, and why are both crucial for sustained growth?

[OR]

(b) How does cultivating a passion for growth among employees influence organizational development?

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