

CA FINAL - AFM

NEW SCHEME

ADVANCED FINANCIAL MANAGEMENT

CASE STUDY BASED MCQs

∞ Author ∞

CA Vinod Kumar Agarwal
[M.Com., F.C.A., C.P.A.(USA)]

Published by :

A. S. Foundation's
VKNOW
— Victory of Knowledge —

Vinod Kumar Agarwal's
A. S. Foundation®
Assured Success

Prestige Point, Office No 11A, 1st Floor, Shukrawar Peth, Pune :- 411002

Email : asfoundation1@gmail.com

Tel. No. (020) 24431210, 24498276, Mob. No. : 8788968910, WhatsApp No. 9766921860, 8767134155

Website : www.vknow.in

© Exclusive publication, distribution and promotion rights reserved with the Author

Price : Rs 499/-

Published by :

A.S. Foundation | VKNOW

Tel. No. (020) 24431210, 24498276, Mob. No. : 8788968910, WhatsApp No. 9766921860, 8767134155

Prestige Point, Office No 11A, 1st Floor, Shukrawar Peth, Pune :- 411002

Email : asfoundation1@gmail.com, asfoundation.in@gmail.com

Computer Typeset :

A.S. Foundation | VKNOW

Prestige Point, Office No 11A, 1st Floor, Shukrawar Peth, Pune :- 411002

Cover Design and Printed By :

A.S. Foundation | VKNOW

Tel. No. (020) 24431210, 24498276, Mob. No. : 8788968910, WhatsApp No. 9766921860, 8767134155

Every effort has been made to avoid errors or omissions in this publication. In spite of this, errors may creep in. Any mistake, error or discrepancy noted may be brought to our notice which shall be taken care off in the next edition. It is notified that neither the Author nor the Seller will be responsible for any damage or loss of action to any one, of any kind, in any manner, therefrom. It is suggested that to avoid any doubt the reader should cross-check all the facts, law and contents of the publication with the Institute's publication or notifications.

No part of this book shall be reproduced or copied in any form or by any means [graphic, electronic or mechanical, including photocopying, recording, taping, or information retrieval system], or reproduced on any disk, tape, perforated media or other information storage device, etc. without the written permission of the author. Breach of this condition is liable for legal action.

Website : www.vknow.in

CA VINOD KUMAR AGARWAL

Connect to **CA Vinod Kumar Agarwal** on facebook and Instagram
And Subscribe to his YouTube Channel "asfoundation"

WHAT DO YOU GET AS A VIRTUAL

- Classbooks
- Pen Drive / Cloud Based Downloadable Link with Serial Key
- Video Index

CONNECT WITH US



9766921860



<https://www.instagram.com/asfoundation/>



www.facebook.com/asfoundation.pune, www.facebook.com/asfoundation.in



ASFOUNDATION



@ASFoundation



AS Foundation



A S Foundation / 9422365495

CONTACT

For Enquiry :	8788968910, Email : asfoundation1@gmail.com
WhatsApp No. :	9766921860, 8767134155
For Technical Enquiry	8983789829, 9404994040 Email : support@antargyan.com
For Subject related query	vinod_ca@yahoo.com
Visit us :	www.vknow.in

PREFACE

Dear Students,

Teaching is my passion, and luckily my experience as a teacher has been beautiful, emotional and fulfilling. Over the years, I've watched the student-teacher equation evolve : From guru as God, guru as all-knowing – “Guru Brahma, Guru Vishnu, Guru Devo Maheshwara, Guru Sakshat, Praram Brahmn tas mai Shri Guru vai namaha” – to guru as friend and equal, as someone who doesn't always know best.

Today's guru and shishya are partners in the process of teaching and learning. We inspire, motivate and learn from each other; if I don't know, I can admit it to my students. The teacher is only a facilitator, one who will help the student grow to her potential, become a self-learner. The teacher is only one of many sources. Not infrequently, there is a role reversal. With children being so tech-savvy, often I am the student and they are my teachers.

Has teaching changed the way I think? Yes, most certainly. My students have shown me how to manage time. I admire the confidence of my students who can go up on stage and speak extempore.

I have observed students working in teams, giving suggestions, disagreeing politely, coming to a consensus even if it means giving up one's original idea. I see them sharing everything - their problems and joys, their ice creams and food, with such ease. It is wonderful the way they appreciate their classmates' talents. If you ask them “Who do you think should be given this task?” you can be sure they will pick the most suitable person.

My students have often shown me how to keep cool during a crisis. I am often amazed at their openness, at their ability to think critically, accept reasoned answers. What has struck me most is their daring – to chart unknown territories, to be constantly redefining rules, unafraid to be original.

My students make me think constantly. Last week I told my class, “In these 21 years of teaching from this book, no one has asked me this question!” I have to be always ready for surprises. I know they are not testing me – though they do, sometimes. They ask such basic questions that it stumps me.

I have taken so many things for granted. Students remind me that my learning is not complete and never will be. Above all, my students have taught me to be young, to never grow old. I have to be up-to-date in everything, in order to keep up with them.

Any effort in life is the culmination of various myriad experiences, teachings, inspiration and guidance. This book, not being an exception, is the outcome of, and influenced by, all such experiences, teachings, inspiration and guidance. I take this opportunity to thank my parents, my teachers and friends for being with me all the time.

This book, in no way, is a substitute to the Study Material, issued by the ICAI. It is only a humble effort to help the students to cope with the vast syllabus of **ADVANCED FINANCIAL MANAGEMENT**. This book, though concise, yet is comprehensive and covers the entire syllabus.

Any constructive criticism is always welcome. I eagerly look forward to suggestions for improvements from the readers of this book.

**“Every man is free to rise as far as he is able or willing
But the degree to which he thinks determines
The degree to which he will rise.”**

CA Vinod Kumar Agarwal

Tel. No:- WhatsApp No : 9766921860

Email : asfoundation1@gmail.com , vinod_ca@yahoo.com

Website : www.vknow.in

CA FINAL AFM – INDEX

Case study No	PERTICULARES	Page No.
1	CASE STUDY - 1 : MARCH 2024 MTP	1.1 – 1.1
2	CASE STUDY - 2 : MARCH 2024 MTP	2.1 – 2.1
3	CASE STUDY - 3 : MARCH 2024 MTP	3.1 – 3.1
4	CASE STUDY - 4 : MARCH 2024 MTP	4.1 – 4.1
5	CASE STUDY - 5 : APRIL 2024 MTP	5.1 – 5.1
6	CASE STUDY - 6 : APRIL 2024 MTP	6.1 – 6.1
7	CASE STUDY - 7 : APRIL 2024 MTP	7.1 – 7.1
8	CASE STUDY - 8 : MAY 2024 RTP	8.1 – 8.1
9	CASE STUDY - 9 : MAY 2024 RTP	9.1 – 9.1



ABOUT

CA VINOD KUMAR AGARWAL

(AIR-2nd, 4th & 24th IN FOUNDATION,
INTER & FINAL RESPECTIVELY)

SUMMARY

Founder Member of A.S. Foundation, India's Leading Academy for C.A. Course, CA Vinod Kumar Agarwal is a fellow member of ICAI and a past member of the Board of Studies, ICAI. With a teaching experience of twenty years, he has guided more than 1,00,000 students and is ranked as one of the best teachers for Accounts and Financial Management at Intermediate level and Financial Reporting and SFM at Final Level. He has authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, and his books have sold more than 2,00,000 copies.

PUBLICATIONS AND ACHIEVEMENTS

- A merit holder in all the three levels of exams conducted by ICAI (2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate and CA Final respectively).
- Scored 99 marks in Accountancy in CA Foundation.
- Authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, Integrated Business Solutions, etc.
- Compiled a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.
- Compiled a book, "Mind Candy", a book on motivation.
- Compiled a book, "Sweet Voice", a book on inspirational quotes.
- Working experience with India's top firms like M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte).
- Published article in the Students Newsletter of ICAI on "Valuation of Equity Shares" and "Stock Market Index".
- Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

EDUCATION

- Passed the Certified Public Accountant (CPA) (USA) exam in 2007.
- Post-graduation from Pune University with First Class.
- Graduation from B.M.C.C, Pune with distinction.
- Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.
- Passed the Derivative Module test conducted by National Stock Exchange.
- **Also appeared for UPSC exam and cleared Mains twice.**

TEACHING EXPERIENCE

- Teaches Accounts, Advanced Accountancy, Financial management at CA Intermediate Level and Financial Reporting and Advanced Financial Management (AFM) at CA Final level.
- Pioneer of creating and distributing video tutorials in pen drives/google drive among students.
- Produced All India Toppers (1st Rank) in CPT examination and final examination apart from more than 250 all India merit- holders.
- More than 30000 Facebook subscribers, more than **135000** YouTube subscribers.
- Sold more than 40000 video lectures in pen-drive and google-drive mode.
- In 2019, launched a brand VKNOW, to become a national brand for digital learning.

TEACHING APPROACH

- Simple and effective way of teaching through concept building, class-room practice, home-exercise, and power-point presentation.
- A large variety of problems are solved in the class to meet the examination requirements.
- Notes are updated frequently covering amendments and exam problems.

● MARCH 2024 - MTP ●

CASE STUDY 1

Mr. Y has invested in the three mutual funds (MF) as per the following details:

Particulars	MF 'X'	MF 'Y'	MF 'Z'
Amount of Investment (₹)	4,00,000	8,00,000	4,00,000
Net Assets Value (NAV) at the time of purchase (₹)	10.30	10.10	10
Dividend Received up to 31.03.2023 (₹)	9,000	0	6,000
NAV as on 31.03.2023 (₹)	10.35	10	10.30
Effective Yield per annum as on 31.03.2023 (percent)	9.66	11.66	24.15

Assume 1 Year = 365 days

On the basis of above information, choose the most appropriate answer to the following questions:

- 1 Total NAV of MF 'Y' as on 31.03.2023 would be approximately
 (a) ₹401941.73 (b) ₹412000.00 (c) ₹792079.20 (d) ₹82500.00
- 2 Total Yield of MF 'X' in terms of ₹ would be approximately
 (a) ₹10941.73 (b) ₹7,920.80 (c) ₹18,000.00 (d) ₹12450.45
- 3 Number of days for which MF 'X' is held would be approximately.....
 (a) 31 Days (b) 68 Days (c) 103 Days (d) 85 Days
- 4 Number of days for which MF 'Y' is held would be.....
 (a) 31 Days (b) 68 Daysq (c) 103 Daysq (d) 85 Days

2 Marks

2 Marks

2 Marks

2 Marks

ANSWERS TO THE CASE STUDY 1

- 1 Option (c)
- 2 Option (a)
- 3 Option (c)
- 4 Option (a)
- 5 Option (d)

● MARCH 2024 - MTP ●

CASE STUDY 2

ABC Ltd. is planning to expand its business and therefore raising fund by issuing a convertible bond of ₹ 10 crore. An investor "Mr. X" is interested to invest in the bond of ABC Ltd. Mr. X has following data related to the convertible bond.

The data given below relates to a convertible bond:

Face value	₹ 250
Coupon rate	12%
No. of shares per bond	20
Market price of share	₹ 12
Straight value of bond	₹ 235
Market price of convertible bond Maturity	₹ 265
	5 Years

You, being an expert of the matter, are required to answer his questions. Select the most appropriate alternative:

- 1 The percentage of downside risk of the bond is approximately.....
 (a) 10.42% (b) 6.38% (c) 2.13% (d) 12.77% **2 Marks**
- 2 The conversion premium in percentage term of the bond is.....
 (a) 12.77% (b) 10.42% (c) 2.18% (d) 13.45% **2 Marks**
- 3 The conversion parity price of the stock is.....
 (a) ₹ 11.75 (b) ₹ 12.00 (c) ₹ 13.25 (d) ₹ 12.50 **2 Marks**
- 4 If he wants a yield of 15% the maximum price he should be ready to pay for is.....
 (a) 217.41 (b) 224.81 (c) 240.00 (d) 232.32 **2 Marks**

ANSWERS TO THE CASE STUDY 2

- 1 **Option (d)**
2. **Option (b)**
- 3 **Option (c)**
- 4 **Option (b)**

● MARCH 2024 - MTP ●

CASE STUDY 3

Suppose you are a financial consultant and following 3 clients have approached to you seeking advise on the investment to be made in securities. All these clients have different background and risk appetite as well as perception to the market.

- Client A wants to invest in Fixed income avenues and therefore he is looking at the credit rating of the securities as well as financial ratios such as interest coverage, earning power etc and the general prospect of the industry.
- Client B wants to earn a fixed income over a period of time by holding the security till its maturity.
- Client C wants to earn more by taking more risk. Therefore, he is more interested to invest in stocks. He believes that Price reflects all information found in the record of past prices and volumes.

On the basis of above information, choose the most appropriate answer to the MCQs.

- 1 The main factor to be considered in selecting fixed income avenue for client A shall be.....
(a) Yield to maturity (b) Risk of Default (c) Tax Shield (d) Liquidity **2 Marks**
- 2 The main factor that have to be evaluated in the selection of Bond for Client B shall be.....
(a) Yield to maturity (b) Risk of Default (c) Tax Shield (d) Liquidity **2 Marks**
- 3 If Weak form efficiency is prevailing in the market then which approach is best for selection of Equity Shares?
(a) Technical Analysis (b) Fundamental Analysis
(c) Random selection Analysis (d) None of the above. **2 Marks**

ANSWERS TO THE CASE STUDY 3

- 1 **Option (b)**
2. **Option (a)**
- 3 **Option (b)**

● MARCH 2024 - MTP ●

CASE STUDY 4

AES Ltd. wants to acquire DNF Ltd. and has offered a swap ratio of 1:2 (0.5 shares for every one share of DNF Ltd.). Following information is provided:

AES Ltd. DNF Ltd.		
Profit after tax	₹36,00,000	₹ 7,20,000
Equity shares outstanding (Nos.)	12,00,000	3,60,000
PE Ratio	10times	7 times
Market price per share	₹ 30	₹ 14

On the basis of above information, choose the most appropriate answer to the following questions:

- 1 The number of equity shares to be issued by AES Ltd. for acquisition of DNF Ltd. Would be.....
 (a) 1,68,000 (b) 1,80,000 (c) 2,40,000 (d) 3,00,000 **2 Marks**
- 2 The EPS of AES Ltd. after the acquisition would be.....
 (a) ₹ 2 (b) ₹ 3 (c) ₹ 3.13 (d) ₹ 4.00 **2 Marks**
- 3 The equivalent earnings per share of DNF Ltd. would be.....
 (a) ₹ 1 (b) ₹ 1.50 (c) ₹ 1.57 (d) ₹ 2.00 **2 Marks**
- 4 If AES Ltd. PE multiple remains unchanged then its expected market price per share after the acquisition would be.....
 (a) ₹ 14 (b) ₹ 30 (c) ₹ 31.30 (d) ₹ 40.00 **2 Marks**

ANSWERS TO THE CASE STUDY 4

- 1 **Option (b)**
- 2 **Option (c)**
- 3 **Option (c)**
- 4 **Option (c)**

CASE STUDY 5

CASE SCENARIO I

During one business meeting at XYZ Ltd., one of the member pointed out that while evaluating the performance of any company one should not only see its Operating Income but should also analyse its Capital structure as well. Weighted Average Cost of Capital changes on the basis of capital structure keeping all other factors unchanged.

He presented data relating to 3 companies Alpha Ltd., Beta Ltd. and Gama Ltd. whose operating Income are equal, but their capital structure is different.

The following information relating to these 3 companies is as follows:

(in ₹ 000)

	Alpha Ltd.	Beta Ltd.	Gama Ltd.
Total invested capital	20,00,000	20,00,000	20,00,000
Debt/Assets ratio	0.8	0.5	0.2
Shares outstanding	61,000	83,000	1,00,000
Pre tax Cost of Debt	16%	13%	15%
Cost of Equity	26%	22%	20%
Operating Income (EBIT)	5,00,000	5,00,000	5,00,000

The Tax rate is uniform 35% in all cases. The industry PE ratio is 11X.

Based on above case scenario, choose the most appropriate answer of the following:

- The weighted average cost of capital of Alpha Ltd. shall approximately be
 (a) 13.520% (b) 15.225% (c) 17.950% (d) 18.000% **2 Marks**
- The Economic Valued Added (EVA) for Beta Ltd. is.....
 (a) ₹ 54600 Thousand (b) ₹ 20500 Thousand
 (c) (-) ₹ 34000 Thousand (d) ₹ 21500 Thousand **2 Marks**
- The price per share of Gama Ltd. shall be
 (a) ₹ 28.60 (b) ₹ 31.90 (c) ₹ 31.46 (d) ₹ 29.45 **2 Marks**
- The estimated market capitalisation for Alpha Ltd. is.....
 (a) ₹ 26,47,700 Thousand (b) ₹ 31,46,000 Thousand
 (c) ₹ 17,44,600 Thousand (d) ₹ 23,73,800 Thousand **2 Marks**
- Earning per share of Beta Ltd. is.....
 (a) ₹ 2.60 (b) ₹ 2.90 (c) ₹ 2.86 (d) ₹ 2.15 **2 Marks**

ANSWERS TO THE CASE STUDY 5

- Option (a)
- Option (b)
- Option (c)
- Option (c)
- Option (b)

● APRIL 2024 - MTP ●

CASE STUDY 6

On 1 October 2023 Mr. X an exporter enters into a forward contract with a BNP Bank to sell US\$ 1,00,000 on 31 December 2023 at ₹ 85.40/\$. However, due to the request of the importer, Mr. X received the amount on 28 November 2023. Mr. X requested the bank to take delivery of the remittance on 30 November 2023 i.e., before due date. The inter-banking rates on 28 November 2023 was as follows:

Spot ₹ 85.22/85.27

One Month Premium 10/15

Note: (1) Consider 365 days in a year.

(2) Prevailing Prime Lending Rate is 12%

Based on above case scenario, choose the most appropriate answer of the following:

1. The bank may accept the request of customer of delivery before due date of forward contract provided the customer is ready to bear the loss if any consisting of.....
(a) Swap Difference
(b) Interest on Outlay of Fund
(c) Swap Difference Plus Interest on Outlay of Fund
(d) Fixed Charges Plus Swap Difference and Interest on Outlay of Fund **2 Marks**
2. In case of early delivery bank shall charge interest on outlay of fund at a rate not less than.....
(a) 8% (b) 10% (c) 12% (d) 18% **2 Marks**
3. Swap Difference for US\$ 1,00,000 is.....
(a) ₹ 5,000 (b) ₹ 20,000 (c) ₹ 18,000 (d) ₹ 8,000 **2 Marks**
4. Interest on outlay of funds shall be approximately.....
(a) ₹ 92 payable by X (b) ₹ 183 payable by X 00
(c) ₹ 183 payable by Bank (d) ₹ 122 payable by Bank 00 **2 Marks**
5. Net inflow to Mr. X is approximately.....
(a) ₹ 85,42,183 (b) ₹ 85,20,000 (c) ₹ 85,19,817 (d) ₹ 85,40,000 **2 Marks**

ANSWERS TO THE CASE STUDY 6

1. Option (d)
2. Option c)
3. Option (b)
4. Option (b)
5. Option (c)

● APRIL 2024 - MTP ●

CASE STUDY 7

A US parent company has subsidiaries in France, Germany, UK and Italy. The amounts due to and from the affiliates is converted into a common currency viz. US dollar and entered in the following matrix.

INTER SUBSIDIARY PAYMENTS MATRIX

(US \$ THOUSANDS)

Paying affiliate						
Receiving affiliate		France	Germany	UK	Italy	Total
	France	---	80	120	200	400
	Germany	120	---	80	160	360
	UK	160	120	---	140	420
	Italy	200	60	120	---	380
	Total	480	260	320	500	1560

The treasurer of US Parent company is suggesting that by applying Multilateral Netting system the company can save a lot of transfer/ exchange costs. The company's Board agreed with Treasurer's proposal.

From the above case scenario, choose the most appropriate answer of following MCQs.

- Before applying Multilateral Netting it is necessary to apply.....
 (a) Unilateral Netting (b) Bilateral Netting
 (c) Multilateral Netting (d) Interest Rate Swapping **2 Marks**
- Through Multinational Netting these transfers will be reduced to
 (a) \$ 50,000 (b) \$ 100,000 (c) \$ 150,000 (d) \$ 200,000 **2 Marks**
- The Net Payment / Net Receipts for France after netting off shall be.....
 (a) Net Receipt \$ 40,000 (b) Net Payment \$ 80,000
 (c) Net Payment \$ 40,000 (d) Net Receipt \$ 80,000 **2 Marks**
- The Net Payment/ Net Receipts for Italy after netting off shall be.....
 (a) Net Receipt \$ 60,000 (b) Net Payment \$ 120,000
 (c) Net Payment \$ 60,000 (d) Net Receipt \$ 120,000 **2 Marks**
- Suppose if the transfer charges are 0.01% of the amount transferred then by applying multilateral netting techniques there will be reduction in overall cost of transfer by
 (a) US \$ 136 (b) US \$ 156 (c) US \$ 1,360 (d) US \$ 1,560 **2 Marks**

ANSWERS TO THE CASE STUDY 7

- Option (b)**
- Option (d)**
- Option (b)**
- Option (b)**
- Option (a)**

● MAY 2024 - RTP ●

CASE STUDY 8

Grow More Ltd. an NBFC is in the need of funds and hence it sold its receivables to MAC Financial Corporation (MFC) for ₹100 million. MFC created a trust for this purpose called General Investment Trust (GIT) through which it issued securities carrying a different level of risk and return to the investors. Further, this structure also permits the GIT to reinvest surplus funds for short term as per their requirement.

MFC also appointed a third party, Safeguard Pvt. Ltd. (SPL) to collect the payment due from obligor(s) and passes it to GIT. It will also follow up with defaulting obligor and if required initiate appropriate legal action against them.

- 1 The securitized instrument issued for ₹100 million by the GIT falls under category of
(a) Pass Through certificate (PTCs) (b) Pay Through Security (PTS)
(c) Stripped Security (d) Debt Fund **2 Marks**
- 2 In the above scenario, the Originator is.....
(a) Grow More Ltd. (b) MAC Financial Corporation (MFC)
(c) General Investment Trust (GIT) (d) Safeguard Pvt. Ltd. **2 Marks**
- 3 In the above scenario, the General Investment Trust (GIT) is a/an.....
(a) Obligor (b) Originator
(c) Special Purpose Vehicle (SPV) (d) Receiving and Paying Agent (RPA) **2 Marks**
- 4 In the above scenario, the Safeguard Pvt. Ltd. (SPL) is a/an.....
(a) Obligor (b) Originator
(c) Special Purpose Vehicle (SPV) (d) Receiving and Paying Agent (RPA) **2 Marks**
- 5 Which of the following statement holds true?
(a) When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to rise.
(b) When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to fall.
(c) When Yield to Maturity in market falls, prices of Principle Only (PO) Securities tend to fall.
(d) When Yield to Maturity in market falls, prices of Principle Only (PO) Securities remain the same. **2 Marks**

ANSWERS TO THE CASE STUDY 8

- 1 Option (b)
- 2 Option (b)
- 3 Option (c)
- 4 Option (d)
- 5 Option (b)

CASE STUDY 9

You are a financial analyst at a prominent investment firm and have been tasked with empirically verifying the weak form of Efficient Market Hypothesis (EMH) Theory for the XYZ Stock Index, a collection of diverse stocks. You decided to conduct three different tests to assess whether the stock market follows the principles of the weak form of EMH.

TEST 1

For the past five years, you collected daily price changes of the stocks in the XYZ Stock Index. You calculated correlation coefficients for different lag periods and analyzed whether past price changes exhibit any significant correlation with future price changes. You considered price changes to be serially independent. The results indicated that most auto correlation coefficients are close to zero and statistically insignificant, suggesting those past price changes do not predict future price changes.

TEST 2

You further investigated the randomness of price changes in the XYZ Stock Index. Analyzing the sequence of daily price changes, you count the number of runs where price changes are consistently positive or negative. Upon comparing the observed number of runs with the expected number based on randomness, you find that they align closely, supporting the idea that price changes follow a random pattern.

TEST 3

To examine the efficacy of trading strategies based on historical price trends, you implemented a simple trading rule for the XYZ Stock Index. The rule involves buying when the price crosses a moving average of 5% threshold and selling when it crosses another 7% threshold. Over a period of testing, you computed the returns generated by the trading strategy. The results revealed that the returns are not consistently better than random chance, implying that past price trends do not reliably predict future price movements.

CONCLUSION:

After conducting the three tests the evidence supports the weak form of Efficient Market Theory for the XYZ Stock Index you concluded that past price trends do not reliably predict future price movements.

BASED ON THE ABOVE INFORMATION ANSWER THE FOLLOWING QUESTIONS:

- 1 **Test 1 is**

(a) Serial Correlation test	(b) Filter Rules test	
(c) Run test	(d) Variance Ratio test.	2 Marks
- 2 **Test 2 is**

(a) Serial Correlation test	(b) Filter Rules test	
(c) Run test	(d) Variance Ratio test.	2 Marks
- 3 **Test 3 is**

(a) Serial Correlation test	(b) Filter Rules test	
(c) Run test	(d) Variance Ratio test.	2 Marks
- 4 **The Filter Rule Test should not be applied for buy and hold strategy if.....**

(a) the behavior of stock price changes is predictable.		
(b) the behavior of stock price changes is dependent on past trends.		
(c) the behavior of stock price changes is correlated.		
(d) the behavior of stock price changes is random.		2 Marks
- 5 **Results of your studies support the.....**

(a) Semi-strong EMH Theory	(b) Strong EMH Theory	
(c) Random Walk Theory	(d) Markowitz Theory	2 Marks

ANSWERS TO THE CASE STUDY 9

- 1 **Option (a)**
- 2 **Option (c)**
- 3 **Option (b)**
- 4 **Option (d)**
- 5 **Option (c)**