20 True or False

Decide, then check the answer and reason below each statement.

Question 1

CAIIB Advance Bank Management (ABM) is the compulsory Paper 2 of the CAIIB examination conducted by IIBF.

TRUE

ABM is officially Paper 2 of CAIIB, alongside BFM, ABFM and BRBL papers.

Question 2

Current Ratio is calculated as Current Liabilities divided by Current Assets.

FALSE

Current Ratio is Current Assets divided by Current Liabilities (CA/CL), not the reverse.

Question 3

Quick Ratio, also called the Acid Test Ratio, excludes inventory from current assets.

TRUE

Quick Ratio equals (Current Assets minus Inventory) divided by Current Liabilities.

Question 4

Debt Service Coverage Ratio (DSCR) ignores depreciation when calculating cash available for debt repayment.

FALSE

DSCR adds depreciation back to net profit and interest in its numerator, it does not ignore it.

Question 5

Interest Coverage Ratio (ICR) uses EBIT, Earnings Before Interest and Taxes, in its numerator.

TRUE

ICR equals EBIT divided by interest on long-term borrowings.

Question 6

Narrow Money M1 already includes time deposits with the banking system.

FALSE

Time deposits are added only in M3, Broad Money, not in the M1 definition.

Question 7

M3, or Broad Money, equals M1 plus time deposits with the banking system.

TRUE

This is the RBI classification: M3 equals M1 plus time deposits with banks.

Question 8

GDP by the expenditure method excludes government spending from its formula.

FALSE

GDP by the expenditure method equals C + I + G + (X-M), which includes government spending G.

Question 9

GNP equals GDP plus net income from assets held abroad.

TRUE

GNP adds net factor income from abroad to GDP under standard national income accounting.

Question 10

Present Value of a future cash flow is calculated by multiplying it by $(1+r)^{n}$.

FALSE

Present Value uses the discount factor $1/(1+r)^{n}$; multiplying by $(1+r)^{n}$ instead gives future value.

Question 11

Effective Interest Rate rises when compounding is done more frequently within a year, for the same nominal rate.

TRUE

EIR equals $(1+r/n)^{n}$ minus 1, which increases as compounding frequency n increases.

Question 12

Current Yield on a bond automatically accounts for capital gain or loss at maturity.

FALSE

Current Yield ignores capital gain or loss; only Yield to Maturity captures it.

Question 13

Yield to Maturity (YTM) captures both coupon income and capital gain or loss held to maturity.

TRUE

YTM's formula averages coupon income with the gain or loss between purchase price and face value.

Question 14

A Zero Coupon Bond pays periodic coupon interest before maturity.

FALSE

A zero coupon bond pays no periodic interest; it is issued at a discount and redeemed at face value.

Question 15

Discounted money-market instruments such as Treasury Bills typically use a 365-day or 36500 convention in pricing.

TRUE

T-Bill and Commercial Paper discount pricing formulae in ABM use 365 or 36500 as the day-count base.

Question 16

Present Value of a Perpetuity is calculated by multiplying the annuity amount by the interest rate.

FALSE

PV of Perpetuity equals the annuity amount divided by the interest rate (A/r), not multiplied by it.

Question 17

Standard Error of the Mean is the population standard deviation divided by the square root of the sample size.

TRUE

This is the standard statistical formula, sigma divided by the square root of n.

Question 18

Probability of an event is calculated as total outcomes in the sample space divided by favourable outcomes.

FALSE

Probability equals favourable outcomes divided by total outcomes in the sample space, the reverse ratio.

Question 19

Tangible Net Worth is obtained by subtracting intangible assets from Net Worth.

TRUE

Tangible Net Worth equals Net Worth minus Intangible Assets, per the ABM ratio formulae.

Question 20

Debt Equity Ratio is calculated as Tangible Net Worth divided by Term Loan.

FALSE

Debt Equity Ratio equals Term Loan divided by Tangible Net Worth, not the reverse.