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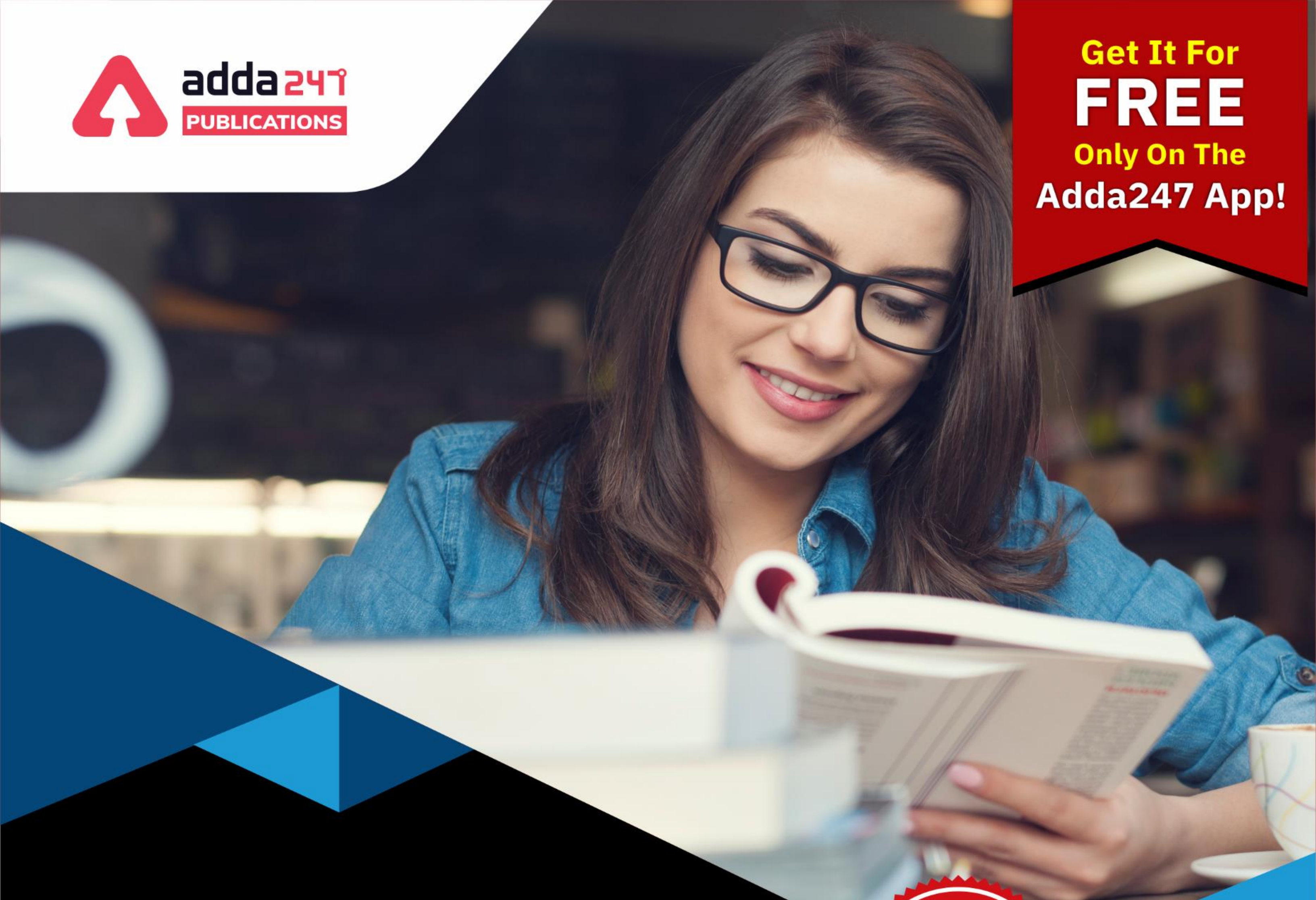

20 CAIIB

Recollected Questions in

ADVANCED BANK MANAGEMENT (ABM)

PART IV

For CAIIB 2022 Examination

KEY HIGHLIGHTS

- Most likely to be asked questions
- Recollected from the previous 5 years
- Thoroughly curated by Industry Experts
- 20 Questions with Solutions
- Based on the Latest Pattern for 2022 Exam

Advanced Bank Management (ABM) – Part IV

Q1. Which is the most frequent method in India, of calculating inflation?
(a) Consumer Price Index
(b) Food Inflation Index
(c) GDP Deflator
(d) Wholesale Price Index
Ans.(d)

Q2. Find odd one out ......
(a) Cyclical Trend
(b) Dependent Variable
(c) Seasonal Variation
(d) Secular Trend
Ans.(b)

Directions (3-5): Given the following data (Rs. in Arab) about a government budget

Capital Receipts Net of Borrowings	95
Revenue Expenditure	100
Interest Payments	10
Revenue Receipts	80
Capital Expenditure	110

Q3. Find out the Revenue deficit
(a) Rs. 20 Arab
(b) Rs. 25 Arab
(c) Rs. 35 Arab
(d) Rs. 40 Arab
Ans.(a)
Explanations:
Revenue Deficit = Revenue Expenditure – Revenue Receipts
= 100 - 80
= Rs. 20 Arab

Q4. Find out the Fiscal deficit

(a) Rs. 20 Arab

(b) Rs. 25 Arab

(c) Rs. 35 Arab

(d) Rs. 40 Arab

Ans.(c)

Explanations:

Fiscal Deficit = [Revenue Expenditure + Capital Expenditure] – [Revenue Receipt + Capital Receipt Net of Borrowing]

= (100 + 110) - (80 + 95)

= 210 - 175

= Rs. 35 Arab

Q5. Find out the Primary deficit

(a) Rs. 20 Arab

(b) Rs. 25 Arab

(c) Rs. 35 Arab

(d) Rs. 40 Arab

Ans.(b)

Explanations:

Primary Deficit = Fiscal Deficit – Interest Payments

= 35 - 10

= Rs. 25 Arab

Directions: Based on the above information on sale of motor-bikes, answer the following situation?

Situation	**Price**	**Quantity demanded**	**Quantity Supplied**
A	80000	1550000	2770000
B	70000	1980000	2490000
C	65000	2250000	2250000
D	60000	2600000	1940000
E	50000	3000000	1650000

Q6. What will be state of the market and what type of pressure will be there on the prices of the motor-bike for situation - A or B?

(a) the market is having surplus supply and there will be reduction in price

(b) the market is having surplus supply and there will be increase in price

(c) the market is having short supply and there will be reduction in price

(d) the market is having short supply and there will be increase in price

Ans.(a)

Explanations:

In situation A and B, there is excess supply of motorbikes compared with demand which is less. This will force the price to decrease.

Q7. What will be state of the market and what type of pressure will be there on the prices of the motorbike for situation - D or E?
(a) the market is having surplus supply and there will be reduction in price
(b) the market is having surplus supply and there will be increase in price
(c) the market is having short supply and there will be reduction in price
(d) the market is having short supply and there will be increase in price
Ans.(d)
Explanations:
In situation D and E, there is excess demand of motorbikes compared with supply which is short. This will force the price to increase.

Q8. What is equilibrium price, demand and supply in the given problem?
(a) equilibrium price is Rs.70000 and demand and supply 1980000 units
(b) equilibrium price is Rs.65000 and demand and supply 2250000 units
(c) equilibrium price is Rs.50000 and demand and supply 3000000 units
(d) information is inadequate. No conclusion is possible
Ans.(b)
Explanations:
Situation C is the equilibrium where the equilibrium price is Rs.65000 and demand and supply 2250000 units.

Directions: Answer the below questions from the table

Items	% Change in Price	% Change in Qty Demanded	Elasticity
Demand for salt	20	-1	X
Demand for bananas	15	Y	-3
Supply of chicken	Z	14	1

Q9. The value of X ......
(a) -20
(b) -0.05
(c) -1
(d) None
Ans.(a)

Q10. The value of Y ......
(a) -5
(b) 15
(c) -45
(d) -3
Ans.(a)

Q11. The value of Z ......
(a) 14
(b) 1
(c) 007
(d) 5
Ans.(a)

Q12. Project loans can be given by the bank to ......

(a) Only corporates

(b) Only corporates and partnership firms

(c) Only corporate, partnership firms and societies

(d) Any business entity

Ans.(d)

Directions: The current ratio is 2 : 1. State giving reasons which of the following transactions would improve, reduce and not change the current ratio:

Q13. Payment of current liability

(a) Improve

(b) Reduce

(c) No change

(d) None of the above

Ans.(a)

Explanations:

The given current ratio is 2 : 1. Let us assume that current assets are Rs. 50,000 and current liabilities are Rs. 25,000; Thus, the current ratio is 2 : 1. Now we will analyse the effect of given transactions on current ratio.

Assume that Rs. 10,000 of creditors is paid by cheque.

This will reduce the current assets to Rs. 40,000 and current liabilities to Rs. 15,000.

The new ratio will be 2.67 : 1 (Rs. 40,000/Rs.15,000).

Hence, it has improved.

Q14. Purchased goods on credit

(a) Improve

(b) Reduce

(c) No change

(d) None of the above

Ans.(b)

Explanations:

The given current ratio is 2 : 1. Let us assume that current assets are Rs. 50,000 and current liabilities are Rs. 25,000; Thus, the current ratio is 2 : 1. Now we will analyse the effect of given transactions on current ratio.

Assume that goods of Rs. 10,000 are purchased on credit.

This will increase the current assets to Rs. 60,000 and current liabilities to Rs. 35,000.

The new ratio will be 1.7:1 (Rs. 60,000/Rs. 35,000).

Hence, it has reduced.

Q15. Sale of a Computer (Book value: Rs. 4,000) for Rs. 3,000 only
(a) Improve
(b) Reduce
(c) No change
(d) None of the above
Ans.(a)
Explanations:
The given current ratio is 2 : 1. Let us assume that current assets are Rs. 50,000 and current liabilities are Rs. 25,000; Thus, the current ratio is 2 : 1. Now we will analyse the effect of given transactions on current ratio.
Due to sale of a computer (a fixed asset) the current assets will increase to Rs. 53,000 without any change in the current liabilities.
The new ratio will be 2.12 : 1 (Rs. 53,000/Rs. 25,000).
Hence, it has improved.

Q16. Sale of merchandise (goods) costing Rs. 10,000 for Rs. 11,000
(a) Improve
(b) Reduce
(c) No change
(d) None of the above
Ans.(a)
Explanations:
The given current ratio is 2 : 1. Let us assume that current assets are Rs. 50,000 and current liabilities are Rs. 25,000; Thus, the current ratio is 2 : 1. Now we will analyse the effect of given transactions on current ratio.
This transaction will decrease the inventories by Rs. 10,000 and increase the cash by Rs. 11,000 thereby increasing the current assets by Rs. 1,000 without any change in the current liabilities.
The new ratio will be 2.04 : 1 (Rs. 51,000/Rs. 25,000).
Hence, it has improved.

Q17. Payment of dividend.
(a) Improve
(b) Reduce
(c) No change
(d) None of the above
Ans.(b)
Explanations:
The given current ratio is 2 : 1. Let us assume that current assets are Rs. 50,000 and current liabilities are Rs. 25,000; Thus, the current ratio is 2 : 1. Now we will analyse the effect of given transactions on current ratio.
Assume that Rs. 5,000 is given by way of dividend.
It will reduce the current assets to Rs. 45,000 without any change in the current liabilities.
The new ratio will be 1.8 : 1 (Rs. 45,000/Rs. 25,000).
Hence, it has reduced.

Q18. Find Coefficient of Variance for the values given : {13,35,56,35,77}
(a) 0.4156
(b) 0.5164
(c) 0.5614
(d) 0.6514
Ans.(c)
Explanation:
Number of terms (N) = 5
Mean:
Xbar = (13+35+56+35+77)/5
= 216/5 = 43.2
Standard Deviation (SD**)**
σx= √(1/(N - 1)*((x1-xm)2+(x2-xm)2+..+(xn-xm)2))
=√(1/(5-1)((13-43.2)2+(35-43.2)2+(56-43.2)2+(35-43.2)2+(77-43.2)2))
=√(1/4((-30.2)2+(-8.2)2+(12.9)2+(-8.2)2+(33.8)2))
=√(1/4((912.04)+(67.24)+(163.84)+(67.24)+(1142.44)))
=√(588.2) = 24.2528
Coefficient of variation (CV)
CV = Standard Deviation / Mean
= 24.2528/43.2 = 0.5614

Q19. A sack contains 4 black balls 5 red balls. What is probability to draw 1 black ball and 2 red balls in one draw ?
(a) 12/21
(b) 9/20
(c) 10/21
(d) 11/20
Ans.(c)
Explanations:
Here total sample space is (4+5) = 9. Out of 9, 3 (1 black & 2 red are expected to be drawn)
Hence sample space n(S) = 9c3 = 9!/6!×3! = 84
Now out of 4 black ball 1 is expected to be drawn. n(B) = 4c1 = 4
Same way out of 5 red balls 2 are expected be drawn. n(R) = 5c2 = 5!/3!×2! = 10
Then P(B U R) = n(B) × n(R) / n(S) = 4×10/84 = 10/21

Q20. Effect of 14% compounding quarterly on effective annual int rate ...... %
(a) 14.25
(b) 14.50
(c) 14.75
(d) 15.00
Ans.(c)
Explanations:
Effective rate=(1+Annual ROI/N)^n-1
=1+14%/4)^4-1
=1.035^4-1 = 1.1475-1
=1475 = 14.75%