Q44

Consider the following: 1. Exchange-Traded Funds (ETF) 2. Motor vehicles 3. Currency swap Which of the above is/are considered financial instruments? (a) 1 only (b) 2 and 3 only (c) 1, 2 and 3 (d) 1 and 3 only Official key: D.

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Explanation

(a)

1 only. Currency swaps are also financial instruments.

(b)

2 and 3 only. A motor vehicle is a real asset, not a financial instrument.

(c)

All three. Motor vehicles drop.

(d) Official key

1 and 3 only. ETFs and currency swaps; not cars.

Summary

Official key is (d) 1 and 3 only. An ETF is a traded financial claim. A currency swap is a derivative / FX instrument. A motor vehicle is physical capital, not a financial instrument. So 2 drops.

Related possible facts

These can be asked in a future Prelims paper.

Financial instrument

A contract that creates a financial asset for one party and a liability/equity for another.

Currency swap

Exchange of principal and interest in different currencies.