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## Top 33 Investment Banking Interview Questions & Answers

### 1) What is another term for Investment Banking division?

Investment Banking is also called Corporate Finance.

### 2) Why are you interested in Investment Banking?

This question is asked to check the candidate's interest to know his understanding of the Investment Banking.

Therefore, you should be aware of the certain key skills and attributes required for this job. You should also explain why you think you are a suitable candidate for this position.

### 3) What is a formula to calculate working capital?

The formula is

Working capital = Current assets - Current liabilities.

### 4) What is typically higher the cost of debt or the cost of equity?

The cost of equity is always greater than the cost of debt because the cost associated with borrowing debt is tax deductible. Moreover, the cost of equity is higher because unlike lenders, equity investors are not guaranteed to get fixed payments.

Debt is less expensive because its Interest payment is considered an expense. Debt is also given preference in a firm's capital structure. So, in the situation of liquidation or Bankruptcy, the debt holders get paid their fund first before the equity holders.

### 5) What does WACC mean?

WACC stands for **W**eighted **A**verage **C**ost of **C**apital. It is a calculation of an organization's capital that is weighted proportionally. It includes every source of capital, and it takes into account factors like depreciation, tax rates, debt, and equity.



## 6) What are the essential qualities to become Investment Bankers?

The skill sets required to become Investment Bankers are:

- Strong quantitative/analytical skills
- Superior attention to detail
- Should have solid work ethic
- Excellent spoken, verbal and written communication skills
- Able to manage multiple project deadlines
- Positive and never give up attitude
- Drive and determination
- Efficient time management
- Communication ability
- Complete attention to detail
- Ability to learn quickly
- Able to think out of box

## 7) What are your long-term career goals as an Investment Banker?

This question is asked to know whether you are serious about your career and ready to work in this field. It is a financial job, so it is crucial for the Bank to hire a candidate who are ready to work with the same Bank for a longer time.

## 8) Discuss risks that you have taken if your life?

By nature, I am very conservative and don't like to take too much risk. However, that surely does not mean that I never take my chances. So, when I do take chances, it is always based on the rational analysis. It allows me to ensure success and also understand the risks involved before taking the plunge.

As an Investment Banker most of the time you should take tough decisions. Before taking decision you need to account political changes and the market trends. Therefore, you need to show your ability to take calculated risks and demonstrate adequate analytical skills.

Here, you also need to highlight the logical assumptions made by you while taking any risky decision. Investment Banking is more about "roughly right" instead of "precisely accurate."

### **9) What is the monetary policy?**

Monetary policy is a method by which the government, Central Bank, of a country controls the supply of money. It is the availability of money, and cost of money or rate of interest, to meet a set of objectives oriented towards the growth and stability of the economy.

### **10) What is Money laundering?**

Money laundering is the process of creating the appearance that large chunk of money obtained from criminal activity, like terrorist activity, drug trafficking originated from a legitimate source.

### **11) As an Investment Banker what you think an analyst does on a typical day?**

As an Investment Banker, I expect my working hours to be long. I need to perform financial modeling, making pitch books, doing due-diligence, and meet with clients as required.

### **12) What is the difference between Commercial and Investment Banking?**

Here are some major difference between the two:

#### **Commercial Bank:**

- It accepts deposits from customers and gives Commercial loans using this money.
- Most of the loans made by Commercial Banks are held as assets on the Bank's balance sheet.

#### **Investment Bank:**

- It acts as an intermediary between companies and investors.
- It does not accept deposits, but rather sells Investments, advises on M&A, hold loans debt/equity which is originated by the Bank.

### **13) What is a deferred tax asset?**

A deferred tax asset is created when any business pays more tax to the IRS than that is reported on their income statement. It is created from net operating losses and differences in revenue recognition.

### **14) What is a fairness opinion?**

A fairness opinion is an independent assessment. It is issued by an Investment Bank. It mainly includes price offered in a merger or acquisition. It provides a fixed fee, typically by an institution which is not involved in the transaction.

### 15) What is Beta?

Beta is a measure of the riskiness of specific stock. It is calculated as the covariance between stock's return and the total equity market return divided by the change of the return given by market. By default, beta is 1.0.

- Stock with beta > 1 is considered riskier compare to market.
- A stock with beta

### 16) When should need to value a company using a revenue multiple vs. EBITDA?

A firm with negative profit and EBITDA will be likely to have meaningless EBITDA multiples. That is because revenue multiples are more insightful in EBITA.

### 17) Why would two companies merge?

Some Important reasons behind the merger of two companies are:

1. Increasing capabilities
2. Gain a competitive advantage over larger market share
3. Diversifying products or services
4. Significant cost cutting of merged entity.

### 18) What is CAPM?

CAPM is the Capital Asset Pricing Model. It is designed to find the expected return on Investment. It allows estimating discount rate for a company's cash flows.

### 19) How to calculate beta for a specific company?

Calculating betas for historical returns is a calculation of future beta because of estimation errors. The betas of comparable companies are inaccurate because of different rates of leverage.

For that you lever the betas of these comparable companies as such:

$$? \text{ Unlevered} = ?(\text{Levered}) / [1 + (\text{Debt/Equity}) (1-T)]$$

Then, you need to average unlevered beta is calculated, relevered this beta at the target firm's capital structure:

$$? \text{ Levered} = ?(\text{Unlevered}) \times [1 + (\text{Debt/Equity}) (1-T)]$$

**20) What makes a good financial model?**

Building a financial require lots of practices. The finest financial model is one that identifies all the important drivers of the business. It is always accurate and precise. The model should able to handle dynamic scenarios of built-in analysis and error checking.

**21) What is the main difference between cash-based and accrual accounting?**

Cash-based is known as revenue and expenses when cash is received or paid out. On the other end, accrual accounting recognizes revenue when collection is reasonably certain and recognizes expenses when they are incurred instead of when they are paid out in cash

**22) What is the formula to calculate Enterprise Value?**

The formula to calculate Enterprise value is:

Market value of equity + debt + preferred stock + minority interest cash.

**23) What is the difference between enterprise value and equity value?****Enterprise Value:**

It is the value of the operations of a company attributable to all providers of capital. It is also important to think of Enterprise value as the takeover value. The main need for enterprise value is to create valuation ratios/metrics.

**Equity Value:** a component of enterprise value which represents only the proportion of value attributable to shareholders.

**24) What is the meaning of goodwill? How is it calculated?**

It is the type of intangible asset. It is created in an acquisition and reflects the value of a company which is not recognized from its other assets and other obligations. Goodwill is calculated by subtracting the book value from the equity purchase price paid for the share of the company.

However, the rules of accounting clearly state that that goodwill should be repaid in each period. Goodwill also depends on company's balance sheet.

**25) When should a company issue equity, rather than debt, to fund its operations?**

**In following situations company issue equity instead of Debt.**

- If the company feels that stock price is inflated, It may raise a large amount of capital relative to the percent of ownership sold.
- If the company plan on investing in new projects it may not produce immediate or

consistent cash flows to make interest payments.

- In the situation, when a company wants to adjust its capital structure or pay down debt.
- In the case, where company's owners want to sell off a portion of their ownership.

## **26) What is 'Mergers and Acquisitions'?**

Mergers and acquisitions is a term that refers to the consolidation of companies or assets. It includes a number of different transactions, such as mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions.

## **27) What is a swap?**

Swap is a difference in interest rates on loans between two currencies. It is deposited or charged to the account when client rollovers a trading position for the next day. Swap can be both positive as well as negative.

## **28) Why do you need to subtract cash from the enterprise value formula?**

Cash gets subtracted when calculating the value of the enterprise as it is considered a non-operating asset. Further, cash is always included in equity value.

## **29) What is DCF?**

A discounted cash flow is short known as DCF. It is a valuation method used to estimate lucrativeness of an Investment opportunity. It can be performed by using free cash flow projections and discounts them to get present value. It is also used to evaluate the potential for the specific Investment. If the value arrived using DCF analysis. Generally, it is higher than the current cost of the Investment.

## **30) What is a leveraged buyout?**

Leverage buyout is a term, which refers to the use of borrowed money to buy or invest in another firm. In some cases, the ratio of debt to equity can be as high as 90-10.

## **31) Explain a fixed interest Investment**

Fixed interest Investments is a long-term debt security. It promises a return of all Investments at their maturity date.

## **32) What are things that affect the health of a stock portfolio?**

The health of a stock portfolio always depends on its constituents and the correlation between them. For example, investors can search for stock that is negatively correlated to protect their market portfolio.

## **33) What are main valuation methodologies?**

There are three widely used valuation methods.

1. Comparable company analysis
2. Precedent transaction analysis and
3. discounted cash flow analysis.