

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

B.COMM (RISK MANAGEMENT AND INSURANCE) HONOURS DEGREE

INTRODUCTION TO FINANCIAL MARKETS & INSTITUTIONS-CINN 2210

.2006 FIRST SEMESTER SUPPLEMENTARY EXAMINATION

DURATION : 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer Four (4) questions only
 2. Candidates may use a non-programmable calculator
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Question One

“Money is by far the most talked about commodity on earth”

- a) What are the **characteristics** and **functions** of money?
- b) Discuss the forms of money on the Zimbabwean financial markets and institutions in terms of their liquidity starting with the most liquid.
- c) How is the persistently high Zimbabwean inflation affecting the value of local money? **[25 marks]**

Question Two

Fresh Fruits Corporation Ltd (FFC) has been exporting fresh farm produce to Europe and the Far East. FFC's main banking relations were with two of the Zimbabwean banks put under **curators** and significant sums of money are no longer accessible. Due to the profitable nature of FFC's business the shareholders have agreed to a rights issue to inject new funds into the business.

You have been tasked to find a new bank for FFC. Discuss in detail what you have to look for as indicators of the soundness of the new bank and its ability to offer good service. **[25 marks]**

Question 3

(1) In terms of the theory of asset demand , explain why you would be more or less willing to buy a house under the following circumstances: **[15 marks]**

- (a) You just inherited \$100,000
- (b) Real Estate commissions fall from 6% of the sales price to 4% of the sales price
- (c) You expect Delta stock to double in value next year
- (d) Prices in the stock market become more volatile
- (e) You expect housing prices to fall

(2) “The more risk-averse a person is, the more likely that person is to diversify”. Is this statement true, false, or uncertain? Explain. **[10marks]**

Question 4

(a) For what major purposes are interest rate swaps used by institutions ? **[10 marks]**

(b) Company X, a British manufacturer wishes to borrow US dollars at a fixed rate of interest. Company Y, an American multinational , wishes to borrow sterling (pounds) at a fixed rate of interest. They have been quoted the following rates per annum:

	Sterling	US Dollars
Company X	11.0%	7.0%
Company Y	10.6%	6.2%

Design a swap that will net a bank acting as intermediary 10 basis points per annum and that will produce a gain of 15 basis points per annum for each of the two companies. **[15 marks]**

Question 5

Discuss the functions of the Reserve Bank of Zimbabwe as a financial intermediary. **[25 marks]**

Question 6

(a) Explain the difference between the following:

- (1) writing a call option
- (2) buying a put option

[10 marks]

(b) You have the choice to enter into a long futures contract for which the price is \$100 or to take a long position in a call option with a strike price of \$100.

Compare the alternatives.

[10 marks]

(c) Explain the difference between speculation and hedging. **[5 marks]**