

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

B. COM (HON) DEGREE RISK MANAGEMENT AND INSURANCE

FINANCIAL MANAGEMENT AND ANALYSIS FOR INSURANCE-CIN 4206

APRIL/MAY SECOND SEMESTER EXAMINATION 2006

DURATION: 3 HOURS

Instructions To Candidates

1. Answer All Questions.
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QUESTION 1 [25 marks]

- a) Recently, on the same day that the Zimbabwean 10- year Treasury yield was 30%, Botswana 10- year government bond yield was 18%.
 - i) Can we infer from this that the financial markets see Botswana bonds as having less default risk? Why or why not? Explain. **[4 marks]**
 - ii) Must the premium investors' charge for the time preference of money remain constant? **[2 marks]**
- b) How does the existence of the stock-market enable a shareholder to simultaneously hold both liquid and fixed assets? Why is this of advantage to the shareholder? **[10 marks]**
- c) Old mutual stock currently sells at \$36 per share. One year ago the stock sold at \$33 The Company recently paid \$3 per share dividend. What was the rate of return for an investor in Old Mutual over the last year? **[3 marks]**
- d) Why are Treasury bills considered to be a risk free investment? In what way do investors bear risk when they own treasury bills? **[6 marks]**

QUESTION 2

The Dividend Payout Policy often determines the financial standing of a public quoted Company.

Required :

What factors should the financial Manager take into account when recommending dividends to his Board? **[25 marks]**

QUESTION 3

- 1) “Efficient Bond markets require an environment where there is a healthy interplay between demand and supply elements. This facilitates the price discovery process and results in adequate market depth and liquidity.”

Discuss the key factors that can contribute to such an environment in a free economy. **[25 marks]**

QUESTION 4

“As long term markets, Bond markets provide a stable and predictable source of funds for borrowers and a reliable source of income for investors. Participants are therefore able to pursue investment activities with known cost of funds or known returns.”

What are the economic benefits which accrue from this attribute of the Bond market?

[25 marks]

*******END OF EXAMINATION*******