



**National University of
Science and Technology**
Think in Other Terms



FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN
FINANCE
PART II 1ST SEMESTER FINAL EXAMINATION - JANUARY 2011
FINANCIAL MARKETS [CFI 2102]
TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. Attempt ANY FIVE Questions
2. Start the answer to each full question on a fresh page of the answer sheet.
3. Questions may be written in any order, but must be legibly numbered.
4. Write legibly.

INFORMATION FOR CANDIDATES

The businesses in this question paper are intended to be fictitious

The paper contains SIX (6) QUESTIONS.

All questions carry equal marks [20 marks]

Question 1

- a) Define financial markets. [5 marks]
b) What is the difference between the financial markets and financial system? [5 marks]
c) In relation to Zimbabwe financial system explain in detail the meaning of incentive problems. [10 marks]
- [Total 20 marks]**

Question 2

- a) What are the major functions of a money market? [10 marks]
b) How does a money market develop or evolve into an organised market? [10 marks]
- [Total 20 marks]**

Question 3

- a) The original purpose of a commercial paper CP was to provide short-term funds for seasonal and working capital needs, what new purposes have emerged for the use of a CP? [12 marks]
b) Midland Steel Company is considering issuing \$10 million of CPs. A CP dealer has indicated that Midlands could sell a 90-day issue at an annual interest of 9.5%. The placement fee would be \$25,000. What will be the annual financing cost of this CP? [8 marks]
- [Total 20 marks]**

Question 4

- a) What are the general features of Corporate bonds? [8 marks]
b) A firm last paid a dividends are annum during the 3- year supernormal growth period when cost of equity is 30%. Thereafter, they will grow at 20% per annum and the cost of equity will be 25%. Calculate the value of the shares in the firm. [12 marks]
- [Total 20 marks]**

Question 5

- a) Which types of default risks that are associated with mortgage insurance underwriting? [4 marks]
b) Explain the different types of mortgages we have in the market. [8 marks]
c) Calculate the monthly mortgage payment from the following data: principal is \$100,000 period 30 years, and the mortgage rate is 8.125%. [8 marks]
- [Total 20 marks]**

Question 6

a) “Exchange rates play a vital role in the international transactions of any country, for they are the price of other currencies in terms of the home currency”. – P.T Ellsworth.

What roles do exchange rates play in an economy? [10 marks]

b) What were the major weaknesses of the purchasing power parity theory that made economists to do away with it? [10 marks]

[Total 20 marks]