



**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 SUPPLEMENTARY EXAMINATION - AUGUST 2011
FINANCIAL MARKETS [CFI 2102]
TIME ALLOWED: 3HOURS

INSTRUCTIONS TO CANDIDATES

1. Attempt **ANY FOUR** 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.

Question 1

A financial system provides ways for transferring economic resources through time, across geographic regions and among industries.

- a) Explain the above line illustrating what it entails [7 marks]
- b) Examine in depths the functions of a financial system in an economy. [10 marks]
- c) Critically analyse the difference between the financial market and the financial system. [8 marks]

[Total 25 marks]

Question 2

- a) Explain why treasury bills are the best form of money market securities. [5 marks]
- b) Analyse critically the purpose of commercial papers. [6 marks]
- c) A firm has just paid a preference share dividend but expects to pass the next three dividends and resume payments thereafter. The preference share have a par value of \$1.00, a coupon dividend rate of 24% per annum and required return is 30% per annum. What is the value of the preference shares if preference share dividends are cumulative? [7 marks]
- d) Recognising the earnings of \$69 041.10 are calculated on a nominal amount of \$1 000 000.00 but are realized on an outlay of only \$93 958.90, it can be appreciated that the discount rate of 2% results in a real rate of return that is higher. What is its effective yield? [7 marks]

[Total 25 marks]

Question 3

- a) Examine the main forms of regulations government uses to control financial markets. [9 marks]
- b) Discuss in detail the standard justification for governmental regulation of financial markets. [7 marks]
- c) A debenture has a face value of \$100.00, a coupon of 25% per annum, 15 years to maturity and a yield of 20% per annum. What is the value of the debenture? [9 marks]

[Total 25 marks]

Question 4

- a) Critically analyse the general features of corporate bonds. [7 marks]
- b) Financial assets have certain properties that determine or influence their attraction to different classes of pay a dividend of investors. Discuss each one of them clearly. [9 marks]
- c) A share is expected to pay a dividend of 20 cents in year 1, 24 cents in year 2, and 30 cents in year 3. The share is expected to be sold in year 3 at 220 cents and the investor's required rate of return is 18%. What is the value of the share? [9 marks]

[Total 25 marks]

Question 5

- a) Demonstrate how the exchange rate was determined during the gold standard. [8 marks]
- b) Discuss critically the functions of the foreign exchange market. [8 marks]
- c) Examine in detail the weaknesses that made economists to drop the purchasing power parity theory from use. [9 marks]

[Total 25 marks]