

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**FACULTY OF COMMERCE**  
**DEPARTMENT OF FINANCE**  
**BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE**  
**CAPITAL MARKETS [CFI 2203]**  
**SUPPLEMENTARY EXAMINATION AUGUST 2010**  
**TIME ALLOWED: 3 HOURS**

**Instructions to Candidates**

1. Answer any **FIVE** questions
2. All questions carry 20 marks each
3. Write legibly

**QUESTION 1**

There is a wide range of benefits that private companies and their shareholders can obtain from going public. Which are the more important ones? [20 marks]

**QUESTION 2**

- a. What are reverse stock splits? [10 marks]
- b. What is the current value of a share of commonwealth Edison Common Stock to investor who require a 12 percent annual rate of return, if next year's dividend,  $D_1$ , is expected to be Z\$3.00 per share and dividends are expected to grow at an annual rate of 4 percent for the foreseeable future? [10 marks]

**QUESTION 3**

A bond pays a 9% coupon annually. Maturity is on 15 August 2006. The current market yield for the bond is \*%. Interest is calculated on a 30/360 basis. What are accrued coupon, dirty price and clean for settlement on 12 June 2001? [20 marks]

**QUESTION 4**

- a. What does listing mean? [2 marks]
- b. Accompany intending to apply for a listing on the Zimbabwe Stock Exchange must conform with the listing rules and regulations for the listing committee. Which are the rules and regulations? [18 marks]

### **QUESTION 5**

- a. How do you define the term lease, and what are different types of leases? [10 marks]
- b. Pepsico is planning to acquire a fleet of trucks to support its new Pepsi Express distribution system in the Omaha area. The installed cost of the trucks is \$777 00000. The salvage value at the end of five years is expected to be \$75 00000 after-tax. The present value [using Pepsico's after-tax cost of debt as the discount rate] of the depreciation tax shield from this project is \$210 00000 The present value of the after-tax lease payments [also using Pepsico's after-tax cost of debt as the discount rate] is \$575 00000 Pepsico's will incur [ in present value terms] operating costs of\$140 000.00 more, after-tax, if the trucks are owned than jf they are leased.

What is the net advantage to leasing in this case? What should Pepsico do? [10marks]

### **QUESTION 6**

What are the main reasons for having a separation of management and ownership of firms? How does the corporate form of organization facilitate this separation?

[20 marks]

### **QUESTION 7**

Financial intermediaries are firms whose primary business is to provide customers with financial products that cannot be obtained more efficiently by transacting directly in securities markets.

Can you mention any three of them and show how they operate?

[20 marks]