

FINAL
Examination Paper

(COVER PAGE)

Session : April 2017

Programme : Diploma in Finance (DIF)
Diploma in Business (DIB)

Course : FIN2152
FIN2155: FINANCIAL MARKET

Date of Examination : 28 July, 2017 (Friday)

Time : 8:00am – 10:00am Reading Time : Nil

Duration : 2 Hours

Special Instructions :

This paper consists of SIX (6) questions. Answer any FOUR (4) questions in the answer booklet provided. All questions carry equal marks.

Materials permitted :

Non-Programmable Scientific Calculator

Materials provided :

Financial tables

Examiner(s) : Eunice Mok Pei Sea, Teoh Yin Shien

Moderator : Mr Lim Lay Kong

This paper consists of 5 printed pages, including the cover page.

Question 4

- a) Identify the cash flows available to an investor in stock. How reliably can these cash flows be estimated? Compared the problem of estimating stock cash flows to estimating bond cash flows. Which security would you predict to be more volatile? (10 marks)
- b) AB Ltd dividend is expected to grow during the next four years as per the schedule below. After 4 years, the dividend will grow at a constant rate at 5% for the foreseeable future.

	Year 1	Year 2	Year 3	Year 4
Dividends	\$0.05	\$0.07	\$0.10	\$0.12

If your expected return on investment is 10%, how much would you pay for a share today (Year0)? (10 marks)

- c.) Speed company is selling at \$22.00 per share. The most recent annual dividend paid was \$0.80. Using the Gordon Growth model, if the market requires a return of 11%, what is the expected dividend growth rate for Speed Company? (5 marks)

Question 5

- a) Discuss on the FOUR (4) factors that will affect the exchange rates in the long run. (16 marks)
- b) An investor in England purchased a 91-day U.S T-bill for \$987.65. At that time, the exchange rate was \$1.75 per pound. At maturity, the investor will receive \$1,000 and the exchange rate was \$1.83 per pound. What was the investor's holding period return in pounds? (4 marks)
- c) An investor in Canada purchased 100 shares of IBM on January 1st at \$93.00/share. IBM paid an annual dividend of \$0.72 on December 31st. The stock was sold that day as well for \$100.25. The exchange rate is \$0.68/Canadian dollar on January 1st and \$0.71/Canadian dollar on December 31st. What is the investor's total return in Canadian dollars? (5 marks)

Question 6

- a) Discuss on FIVE (5) methods of managing exchange rate risk. (15 marks)
- b) Currency hedging is a strategy that allows an investor to minimize and control the risks involved in foreign investment. Discuss the TWO (2) advantages and TWO (2) disadvantages of hedging currencies. (10 marks)

