

**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.*

DIPLOMA IN BUSINESS PROGRAMME (DIB)  
FIN2155: FINANCIAL MARKET  
FINAL EXAMINATION: APRIL 2017 SESSION

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

**Question 1**

a)

- (i) Why are financial markets important to the health of the economy? (3 marks)
- (ii) Why might you be willing to make a loan to your neighbor by putting funds in a savings account earning a 5% interest rate at the bank and having the bank loan her the funds at a 10% interest rate, rather than loan her the funds yourself? (5 marks)
- (iii) What happened to reserves at the First National Bank if one person withdraws \$1,000 of cash and another person deposits \$500 of cash? (5 marks)

b) Define the followings term and rank the following bank assets from most to least liquid:

- i. Commercial Loans
- ii. Securities
- iii. Reserves
- iv. Physical Capital (12 marks)

**Question 2**

- a) Discuss the FIVE (5) common types of money market instruments that are widely used. (15 marks)
- b) What would be your annualized discount rate % and annualized investment rate % on the purchase of a 182-day Treasury bill for \$4,925 that pays \$5,000 at maturity? (5 marks)
- c) If you want to earn an annualized discount rate of 3.5%, what is the most you can pay for a 91-day Treasury bill that pays \$5,000 at maturity? (5 marks)

**Question 3**

- a) If you want to invest in one of the two securities, consider the two bonds described below:

	Bond X	Bond Y
Maturity	15 years	25 years
Coupon Rate (Paid Semiannually)	15%	11%
Par Value	\$1,000	\$1,000

- (i) If both bonds had a required return of 13%, what would the bonds' prices be? (8 marks)
- (ii) Describe the meaning of a bond that sells at a discount, a premium, and at its face amount (par value). From (i), are these two bonds selling at a discount, premium, or par? (11 marks)
- b) Distinguish between the primary market and the secondary market for securities. (6 marks)

**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)

**~The End ~**

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