



FINAL
Examination Paper

(COVER PAGE)

Session : August 2015

Programme : Diploma in Finance (DIF)

Course : FIN2152: Financial Market

Date of Examination : 9th December 2015 (Wednesday)

Time : 2:00 pm – 4:00 pm

Duration : 2 Hours Reading Time : Nil

Special Instructions :

This paper consists of SIX (6) questions. Answer any FOUR (4)-questions in the answer booklet

provided. All questions carry equal marks.

IMPORTANT NOTE : THIS PAPER SHOULD NOT BE TAKEN OUT OF THE EXAMINATION HALL

Materials Permitted : Nil

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Examiner(s) : Ms. Eunice Mok Pei Sea

Moderator : Dr. Song Saw Im

This paper consists of 4 printed pages, including the cover page.

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DIPLOMA IN FINANCE

FIN2152: FINANCIAL MARKETS

FINAL EXAMINATION: AUGUST 2015 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) A financial intermediary is a financial institution that connects surplus and deficit agents, to discuss the FIVE (5) participants of financial intermediaries. (15 marks)
- b) Briefly define the process of financial intermediation and identify and discuss the TWO (2) main segments of financial markets. (10 marks)

Question 2

- a) Define money market and make contrast on surplus and deficit units. (10 marks)
- b) Discuss the FIVE (5) common types of money market instruments. (15 marks)

Question 3

- a) A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. You are to discuss in details the FOUR (4) types of bonds. (16 marks)
- b) Discuss the THREE (3) factors that will affect bond pricing. (9 marks)

Question 4

- a) The value of a stock is found by computing the value today of all cash flows generate by the stock. You are require to calculate the share prices by using different valuation models as follows:-
- i) The Gordon growth Model – Find the current market price of Coco-cola stock assuming dividends grow at a constant rate of 10.95%. The most recent paid dividend paid is \$1, and the required return is 13%. (7 marks)
 - ii) Price Earning Valuation Method- The average industry PE ratio for restaurants similar to Applebee’s, a restaurant chain is 23. What is the current price of Applebee’s if earning per share is projected to be \$1.13? (3 marks)
- b) Discuss efficient market hypothesis (EMH) and the THREE (3) forms of it. (15 marks)

Question 5

- a) Discuss the two kinds of exchange transactions and provide with an example for each. (7 marks)
- b) Recently the yen price of Japanese steel has increased by 10% (to 11,000 yen) relatively to the dollar of American steel (unchanged at \$100). Explain on the LAW of One Price and calculate by what amount should the dollar increase or decrease for the law of one price to hold true? (6 marks)
- c). Discuss with an example on each of the FOUR (4) factors that will affect the exchange rates in the long run. (12 marks)

Question 6

- a) Identify the FIVE (5) differences between Future Contract and Forward Contract. (10 marks)
- b) Briefly discuss in general FIVE (5) techniques that can be used to hedge against foreign exchange risk. (5 marks)
- c) Nebuka Plc, an electronic company based in the UK has received a firm order from a telecommunication company based in the United States. The value of the order is \$375,000. Delivery is due to take place in 3 months.

Exchange rates

Spot rates \$/£ rates 1.56 – 1.59

There is additional administration charge of 1.2% on the value of the order in pounds (£).

Required

Calculate the net amount in pounds (£) to be received by Nebuka plc if, at the end of the three months, the pound (£), in relation to the US\$ has:

- (i) Remained stable. (5 marks)
- (ii) Lost 5% in value. (5 marks)

~ The End ~
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