INTI International University & Colleges

FINAL
Examination Paper

(COVER PAGE)

Session	:	**April 2018**
Programme	:	Diploma in Business (DIB) Diploma in Finance (DIF)
Course	:	**FIN2155/FIN2152: Financial Market**
Date of Examination	:	July 26, 2018 (Thursday)
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.

Materials permitted : Non-Programmable calculator

Materials provided : Financial table

Examiner(s)	:	**Teoh Yin Shien and Eunice Mok Pei Sea**
Moderator	:	Mr Lim Lay Kong

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

DIPLOMA IN BUSINESS PROGRAMME (DIB)
FIN2155: FINANCIAL MARKET
FINAL EXAMINATION: APRIL 2018 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) Explain the function of financial markets in supply funds directly and indirectly with the aid of a diagram. You explanation need to include the 4 main components: Surplus unit, deficit unit, direct finance and indirect finance.

(15 marks)

(b) Distinguish between the depository institutions and non-depository institutions and explain one example of institutions for each.

(10 marks)

Question 2

(a) Discuss the **FIVE (5)** common types of money market instruments that are widely used.

(15 marks)

(b) 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)

(c) You decide to purchase a 91-days treasury bill for $9,850. When it matures, the bill will worth $10,000. What is the bill's annualized yield and annualized discount rate %?

(5 marks)

Question 3

(a) Relate to the reason behind why bond rating are important to companies and investors?

(5 marks)

(b) Distinguish the **TWO (2)** advantages and **TWO (2)** disadvantages to a company of financing by issuing a bonds.

(10 marks)

(c) Discuss the **FIVE (5)** factors which determine the market price of bonds.

(10 marks)

Question 4

(a) Define the preference share and explain the FOUR (4) features of the preference shares.
(15 marks)

(b) Identify and explain the roles of TWO (2) main participants in an equity market.
(5 marks)

(c) AppliedCo Transport, an air-cargo company, expects to have earnings per share of $2.00 in the coming year. It decides to retain 10% of these earnings in order to lease new aircraft. The return on this investment will be 25%. If its equity cost of capital is 11%, what is the expected share price of AppliedCo Transport?
(5 marks)

Question 5

(a) The exchange rate may fluctuate daily with the changing market forces of supply and demand of currencies. Discuss the **FIVE (5)** leading factors that influence the variations and fluctuations in exchange rates.
(15 marks)

(b) You have just graduated from the University of Florida and are leaving on a whirlwind tour to see some friends. You wish to spend USD1,000 each in Germany, New Zealand, and England (usd 3,000 in total). Your bank offers you the following bid-ask quotes: usd/eur 1.304 -1.305, usd/nzd 0.67--0.69, and usd/gbp 1.90-1.95.

(i) If you accept these quotes, how many eur, nzd, and gbp do you have at departure?
(3 marks)

(ii) Suppose that instead of selling your remaining eur300 once you return home, you want to sell them in Great Britain. At the train station, you are offered gbp/eur 0.66-0.68, while a bank three blocks from the station offers gbp/eur 0.665-0.675. At what rate are you willing to sell your eur300? How many gbp will you receive?
(2 marks)

(c) Explain the impact of an appreciation in the domestic currency on the competitiveness of the exporter.
(5 marks)

Question 6

(a) Recommend the FOUR (4) hedging techniques that can be used to mitigate considerably an exchange rate risk or foreign exchange (forex) risk

(20 marks)

(b) It is 1st Jan 2018 and UK company expect to receive \$300,000 from its US customer in 3 months' time. The company decides to us currency future contract to hedge its transaction risk.

Current spot rate	\$1.54 - \$1.55
Sterling futures contract price	\$1.535
Standard size of future contracts	£62,500

(i) How many futures contract the company can buy if it decide for under-hedged? (To answer in 2 decimal points)

(3 marks)

(ii) What else can the company do if the dollar to receive is not fully hedge under future contract?

(2 marks)

~ **The End** ~