

**INTI**INTERNATIONAL COLLEGE PENANG (507282-U)
LAUREATE INTERNATIONAL UNIVERSITIESFinal
Examination Paper

(COVER PAGE)

Session : January 2017

Programme : Diploma In Finance

Course : **FIN2152: FINANCIAL MARKETS**

Date of Examination : 7 March 2017 (Tuesday)

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

Duration : 2 Hours

Special Instructions :

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 Calculator

Materials provided :

Answer bookletExaminer(s) : Ms. Eunice Mok Pei SeaModerator : Ms. Lim Tan Chin

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

**INTI INTERNATIONAL COLLEGE PENANG
DIPLOMA IN FINANCE (DIF)
FIN2152: FINANCIAL MARKET
FINAL EXAMINATION: JANUARY 2017 SESSION**

Instructions: 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) Identify and elaborate the Four (4) economic functions of financial markets. (20 marks)
- b) How does an increase in the value of the pound sterling affect American businesses? (5 marks)

Question 2

- a) Identify and explain the Three (3) roles of depository institutions in financial markets. (15 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
- (10 marks)

Question 3

- a) What characteristics define the money markets? And discuss the FOUR (4) common types of money market instruments that are widely used. (20 marks)

- b) The price of 182-day commercial paper is \$7,840. If the annualized investment rate is 4.093%, what will the paper pay at maturity? (5 marks)

Question 4

Consider the two bonds described below:

	Bond A	Bond B
Maturity	15 years	20 years
Coupon Rate (Paid Semiannually)	10%	6%
Par Value	\$1,000	\$1,000

- (i) If both bonds had a required return of 8%, 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)
- (ii) If the required return on the two bonds rose to 10%, what would the bonds' prices be? What is your conclusion on the relationship of the required rate of return and bond's price (6 marks)

Question 5

- a)
- i) What basic principal of finance can be applied to the valuation of any investment asset? (3 marks)
- ii) Identify the cash flows available to an investor in stock. How reliably can these cash flows be estimated? Compare the problem of estimating stock flows to estimating bond cash flows. Which security would you predict to be more volatile? (7 marks)

b) Discuss the Efficient Market Hypothesis. (5 marks)

c)

i) The shares of Misheak, Inc. are expected to generate the following possible returns over the next 12 months:

Return	Probability
-5%	0.10
5%	0.25
10%	0.30
15%	0.25
25%	0.10

If the stock is currently trading at \$25/share, what is the expected price in one year? Assume that the stock pays no dividends. (3 marks)

ii) Macro Systems just paid an annual dividend of \$0.32 per share. Its dividend is expected to double for the next four years (D_1 through D_4), after which it will grow at a more modest pace of 1% per year. If the required return is 13%, what is the current price? (7 marks)

Question 6

- a) The following table lists foreign exchange rates between U.S. dollars and British pounds during April:

Date	U.S. Dollars per GBP	Date	U.S. Dollars per GBP
4/1	1.9564	4/18	1.7504
4/4	1.9293	4/19	1.7255
4/5	1.914	4/20	1.6914
4/6	1.9374	4/21	1.672
4/7	1.961	4/22	1.6684
4/8	1.8925	4/25	1.6674
4/11	1.8822	4/26	1.6857
4/12	1.8558	4/27	1.6925
4/13	1.796	4/28	1.7201
4/14	1.7902	4/29	1.7512
4/15	1.7785		

- i) Which day would have been the best day to convert \$200 into British pounds and how much pounds will you get? (4 marks)
- ii) Which day would have been the worst day? What would be the difference in pounds compare with (i)? (5 marks)
- b) 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 was \$0.68/Canadian dollar on January 1st and \$0.71/Canadian dollar on December 31st. What is the percentage of investor's total return? (6 marks)
- c) Identify the FIVE (5) differences between Future Contract and Forward Contract. (10 marks)

