

FINAL ALTERNATIVE ASSESSMENT
Examination Paper

(COVER PAGE)

Session : January 2021

Programme : Diploma in Finance (DFIN)

Course : FIN2152: Financial Markets

Date of Examination : March 10, 2021 (Wednesday)

Time : 12.00pm – 2.30pm Reading Time : Nil

Duration : 2 Hours 30 Minutes

Note: 30 minutes is added into the duration of the examination to factor in any connectivity matters and for you to scan and upload your scripts.

Special Instructions :

This paper consists of **FOUR (4)** questions. Answer **ALL** questions.

Materials permitted : Non-Programmable Calculator

Materials provided : NIL

Examiner(s) : Ainul Zariney Aziz

Moderator : Shindy Lee Jih Shin

This paper consists of 3 printed pages, including the cover page

INTI INTERNATIONAL UNIVERSITY & COLLEGES

DIPLOMA IN FINANCE (DFIN)

FIN2152: FINANCIAL MARKETS

FINAL ALTERNATIVE ASSESSMENT: JANUARY 2021 SESSION

Instructions:

This paper consists of **FOUR (4)** questions. Answer **ALL** questions.

Question 1

- (a) Financial markets perform the essential economic function of channeling funds from excess units to deficit units.
- (i) Illustrate a complete diagram of flow of funds through the financial system. (7 marks)
- (ii) Referring to the diagram you draw in previous section, explain direct finance and indirect finance with examples. (8 marks)
- (b) Financial institutions are what make financial markets work. Without them, financial markets would not be able to move funds from people who save to people who have productive investment opportunities. Discuss any **FIVE (5)** roles of financial institutions in improving the efficiency of the economy. (10 marks)

Question 2

- (a) Well-developed secondary market for money market instruments makes the money market an ideal place for a financial market players to transact in. Discuss **THREE (3)** purposes of money market in financial market. (6 marks)
- (b) Explain money market cost advantages. (5 marks)
- (c) You submit a noncompetitive bid in April 2010 to purchase a 28-day \$1,000 Treasury bill, and you find that you are buying the bond for \$949.88. Calculate the discount rate and the investment rate, and interpret your answers respectively. (6 marks)
- (d) Define the following money market instruments and their term of issuance.
- (i) Certificates of Deposits (CD) (4 marks)
- (ii) Commercial Paper (CP) (4 marks)

Question 3

- (a) Capital market trading occurs in either the primary market or the secondary market. Discuss each of the market with the security that trade in the market. (9 marks)
- (b) A firm has an issue of \$1,000 par value bonds with 10 percent stated interest rate outstanding. The issue pays interest annually and has 5 years remaining to its maturity date. If bonds of similar risk are currently earning 6 percent, calculate the price of the bond today. (5 marks)
- (c) Calculate the current yield for a bond that has a par value of \$1,000 and a coupon interest rate of 12.35%? The current market price for the bond is \$957.01. (3 marks)
- (d) Explain the following characteristics of corporate bonds.
- (i) Conversion (4 marks)
- (ii) Call provision (4 marks)

Question 4

- (a) Discuss **FOUR (4)** differences of common stocks and preferred stocks. (8 marks)
- (b) Calculate the market price of a stock assuming dividends grow at a constant rate of 10%, the most recent dividend paid is \$2.00 and the required rate of return is 13%. (5 marks)
- (c) Tesla's stock trades on the NYSE and its operations are based in the United States. Current yield on a U.S. 10-year treasury is 2.5%. The average excess historical annual return for U.S. stocks is 7.5%. The beta of the stock is 1.25. Calculate the expected return of the security using the CAPM formula. (4 marks)
- (d) Over-the-counter (OTC) market is not organized in the sense of having a building where trading takes place. Instead, trading occurs over sophisticated telecommunications networks. Explain **FOUR (4)** reasons why OTC has been challenging the organized exchanges for business in recent years. (8 marks)

~THE END~