

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE
Third Year/ First Semester Examination in Commerce
2012/2013 (April 2015) (Repeat/Re Repeat)



DED 3043 – Capital Markets and Financial Institutions

Answer all questions

Time: 03 Hours

Non-Programmable calculator permitted

01. (i) What are the major functions of the **Central Bank of Sri Lanka**? (03 Marks)
- (ii) Briefly explain Current role of **Licensed Commercial Banks in Sri Lanka**?
(04Marks)
- (iii) What is meant by “**Merchant Banks**”? Briefly explain Fund Based Services and Fee Based Services. (04 Marks)
- (iv) Explain how the **Insurance companies** play the financial intermediary role in the financial market in Sri Lanka? (06Marks)
- (v) What are the roles of finance companies in Economic Development?
(04 Marks)
- (vi) What are the advantages of investing in **Unit Trust Fund**? (03 Marks)
- (vii) Explain how the **Employees Provident Fund (EPF)** and the **Employees Trust Fund (ETF)** contributes to the development of financial market in Sri Lanka?
- (viii) What are the differences between **Money Market** and **Capital Market**? (06Marks)
- (ix) Explain the instruments used in a developing money market and capital market with special reference to Sri Lanka (06 Marks)
- (x) What are the functions of Financial System? (04 Marks)
- (Total 40 Marks)**

02. (i) Distinguish between the following terms:
- a. Real Time Gross Settlement System (**RTGS**) and Seripless Security Depository System (**SSDS**)
 - b. Primary Board and Thiri Saviya Board.
 - c. S & P SL 20 Price Index and All Share Price Index
 - d. Unit Banking System and Inter Banking System
 - e. Internal Foreign Exchange Market And Off -Shore Banking Market

(05 x 03 = 15 Marks)

- (ii) Write short notes on the following:
- Monetary Board
 - Trading Floor
 - Bond Market
 - Colombo Stock Exchange
 - Security and Exchange Commission

(05 x 03 = 15 Marks)

(Total 30 Marks)

03. (i) A Company paid a dividend of Rs 2.00 per share last year. Dividends are expected to grow at an 8% annual rate for an indefinite number of years.
- If the current market price of a share is Rs 30, what is the expected rate of return of the share?
 - If your required rate of return is 10%, what is the expected rate of return?
 - Should you make an investment in the company's share?

(07 Marks)

- (ii) JK PLC's Rs 100 Perpetual Bond is currently selling for Rs 95. The coupon interest is 13.5 per cent and the Appropriate discount rate is 15 percent
- Calculate the value of the Bond?
 - Calculate the Yield to Maturity?

(07 Marks)

- (iii) A bond has a 10% coupon rate. The interest is paid semi annually & the bond matures in 10 years. Their par value is Rs 1000,
- If your required rate of return is 10% what is the value of bond?
 - What is its value if the interest is paid annually?

(06 Marks)

(Total 20 Marks)

04. a. What are the Key Features of Bond? (03 Marks)
- b. What is the difference between "Liquidation Value" and "Market Value" (04 Marks)
- c. Explain the concept of Yield to Maturity.(YTM) (03 Marks)

(Total 10 Marks)