EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE & MANAGEMENT

EXTERNAL DEGREE PROGRAMME

PART – II EXAMINATION IN BBA/ B.COM 2000/ 2001 (REPEAT)

COM 305 FINANCIAL INSTITUTIONS AND CAPITAL MARKET

Answer all questions

Time : 03 Hours

Non Programmable Calculator permitted.

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01. (a) What are the major functions of the Central Bank of Sri Lanka?

(02 marks)

(b) Explain the various domestic and foreign banking services provided by Commercial Banks in Sri Lanka at present.

(04 marks)

(c) What is meant by "Merchant Banks" explain the various services they provide?

(04 marks)

(d) Explain how the Insurance Companies play the financial intermediary role in the financial market in Sri Lanka.

(04 marks)

(e) Explain how the Employees Provident Fund (EPF) and the Employees Trust Fund (ETF) contribute to the development of financial market of Sri Lanka.

(06 marks)

(f) Define "Unit Trust" and explain the major parties who are involved in it.

(04 marks)

(g) Differentiate between capital market and money market.

(04 marks)

(h) Describe the historical development of Sri Lanka stock market (Colombo Stock Exchange) to date.

(04 marks)

(i) What is Treasury bill market? Explain how it dominates the money market in Sri Lanka.

(04 marks)

(j) Differentiate between Promissory Notes and Bills of Exchange?

(04 marks)

(Total 40 marks)

02. (a) John Keells Company Ltd. will pay a common stock dividend of Rs. 3.20 at the end of the year (D_1). The required rate of return on common stock (K_s) is 14%. The firm's constant growth rate is 9%.

What is the current price of the stock?

(05 marks)

(b) Gargills Ltd. Issued preference shares many years ago. It is carried a fixed dividend of Rs. 6.00 per share. With the passage of time, yields have soared from the original 6% to 14% (yield is the same as the required rate of return)?

(i) What was the original issue price?

(05 marks)

(ii) What is the current value of this preferred stock?

(05 marks)

(c) The following information regarding the ABC Company Ltd.

The risk free rate is 5% the overall stock market will produce a rate of return of 12.5% next year.

ABC Company Ltd. has a beta of 1.7

What rate of return should you get from this company in order to be rewarded for the risk you are taking?

(05 marks)

(Total 20 marks)

03. (a) Explain the features of "bonds".

(04 marks)

(b) Explain the impacts of changes in market interest rates (discount rate) on the value of bonds.

(04 marks)

(c) A company issued a new series of bonds on January 2005. The bonds having 15% of coupon rate, and 15 years of original maturity were sold at par value of Rs. 1,000 each.

(i) What is the value of the bond at the date of issue, when the market interest rate is equal to its coupon rate?

(04 marks)

(ii) Find the value of the bond after one year from the issue assuming that the market interest rate has risen to 20%

(04 marks)

(iii) Find the value of the bond after two years from the issue assuming that the market interest rate has fallen to 10%

(04 marks)

(Total 20 marks)

You are given the following data regarding two securities X and Y.

State of the Economy	Probabilities	Rate of Returns %	
		X	Y
1	0.20	15	- 5
2	0.30	- 5	15
3	0.10	5	25
4	0.15	35	5
5	0.25	25	35

Required :

(a) Calculate the expected rate of return $(\hat{K}_s)$ of each of the above securities.

(04 marks)

(b) Calculate the standard deviation (σ) of returns for each securities and for the portfolio.

(04 marks)

(c) Calculate the coefficient of variation (COV_{XY}) for each securities and for the portfolio.

(04 marks)

(d) Calculate the correlation coefficient (COY_{XY}) to measure the tendency of the returns of the two securities and the riskiness to form the portfolio.

(04 marks)

(e) Find out the standard deviation of the portfolio (σP_{XY}) and comment on the riskiness of the portfolio.

(04 marks)

(Total 20 marks)