

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

Third Year First Semester Examination in Bachelor of Commerce/Specialization in
Accounting and Finance – 2016/2017
(Proper/ Repeat) (October 2018)
DED 3043 – Capital markets and Financial Institutions

Time: 03 Hours

Answer all questions

Non-Programmable calculator permitted

01. a. What are the Core and Agency functions of the Central Bank of Sri Lanka?
(04Marks)
- b. Briefly explain the role of Licensed Commercial Banks and Licensed Specialized Banks in Sri Lanka?
(05 Marks)
- c. Briefly explain how the Insurance companies play the financial intermediary role in the financial market in Sri Lanka?
(04 Marks)
- d. Briefly Explain how the Employees Provident Fund (EPF) and the Employees Trust Fund (ETF) contributes to the development of financial market in Sri Lanka
(05 Marks)
- e. What is the difference between Money Market and Capital Market?
(04 Marks)
- f. Briefly explain the instruments used in a developing money market and capital market with special reference to Sri Lanka
(04Marks)
- g. Briefly explain the major development stages of the Colombo Stock Exchange(CSE)
(04 Marks)
- (Total 30 Marks)**

02. Distinguish between the following terms

- a. Merchant Bank and Investment Bank
- b. Unit Trust and Investment Trust
- c. Standard & Poor's Sri Lanka 20 (S& P S L 20) Price Index and All Share Index (ASPI)
- d. Venture Capital Company and Money Brokers Company
- e. Share Market and Bond Market

(05X 03 = 15 Marks)

03. Write short notes on the following:

- a. Finance Companies
- b. Trading Floor
- c. Euro Market
- d. Leasing Companies
- e. Security and Exchange Commission

(05 x 03 = 15 Marks)

04. a. You placed Rs. 100 in an account that pays 9.6% interest, compounded annually. How long it will take for your account to grow to Rs. 500.

(03 Marks)

b. Construct an amortization schedule if you are ready to borrow a loan from bank for Rs. 5,000 at 12% annual interest with 6 equal annual payments.

(05 Marks)

c. The possible returns of three securities are as follows:

Prob.	A	B	C
0.10	-22.0%	28.0%	-13.0%
0.20	-2.0	14.7	1.0
0.40	20.0	0.0	15.0
0.20	35.0	-10.0	29.0
0.10	50.0	-20.0	43.0
1.00			

Based on the above information calculate the followings:

- a) Expected Return of securities and the Risk of the securities
- b) Coefficient of Variation of securities
- c) If you are planning to invest in two securities, which securities you will select. Explain why you have selected those securities.

(12 Marks)

(Total 20 Marks)

15. a. A bond was issued 30 years ago and now has 10 years to maturity. What would happen to its value over time if the required rate of return is assumed at 10%, 13% and 7%? Par value of bond is 1000 and coupon rate is 10%. Explain your calculation with a diagram

(07 Marks)

- b. Suppose that growth rate of a stock is 0% for 3 years, and then after 3 years of time period stock has long-run constant growth of 6%. If dividend received is Rs. 2 per stock today and required rate of return is 13%. Calculate the followings.

- The stock price of today
- The expected dividend yield and capital gains yield of today ($t=0$)
- The expected dividend yield and capital gains yield of third year ($t=3$)
- The values of expected dividend yield and capital gains yield of $t=0$ and $t=3$

(07 Marks)

- c. You bought 10,000 shares of a company at Rs. 150 each. The par value of a share is Rs. 10. Suppose during the period, the company paid 10% dividend, and the price of the share at the end of the period is Rs. 175.

- Calculate the capital gain per share
- Calculate the dividend per share
- What is the total rate of return?
- What is the rate of return? if the price at the end of the period is Rs. 120.

(06 Marks)

(Total 20 Marks)