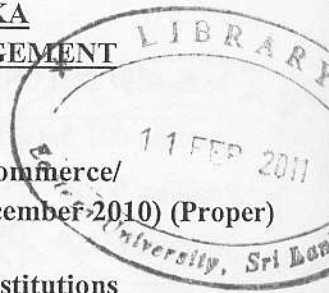


EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE



Final Year- First Semester Examination in Commerce/
Specialization in Enterprise Development -2009/2010 (December-2010) (Proper)

DED 4133 – Capital Market 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**? (02 marks)
- (ii) Briefly explain the various domestic and foreign banking services provided by **Commercial Banks in Sri Lanka**? (04 marks)
- (iii) What is meant by “**Merchant Banks**”? Briefly explain the various services they provide. (04 marks)
- (iv) Briefly explain how the **Insurance Companies** play the financial intermediary role in the financial market in Sri Lanka? (04 marks)
- (v) Define **Unit Trust** and briefly explain the major parties who are involved in it. (04 marks)
- (vi) What are the advantages of investing in **Unit Trust Fund**? (04marks)
- (vii) 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)
- (viii) Differentiate between **Capital Market** and **Money Market**. (04marks)
- (ix) What is **Treasury Bill Market**? Briefly explain how it dominates the money market in Sri Lanka. (04marks)
- (x) Briefly explain the major development stages of the **Colombo Stock Exchange (CSE)** (04 marks)
- (Total 40 Marks)

- 02 (i) Distinguish between the following terms
- a. Share Market and Bond Market
 - b. Primary Share Market and Secondary Share Market.
 - c. Milanka Price Index and All Share Price Index
 - d. Treasury Bills and Treasury Bonds.
 - e. Colombo Stock Exchange and Security Exchange Commission

(05 x 02 = 10 Marks)

(ii) Write short notes on the following:

- a. Leasing Companies
- b. Trading Floor
- c. Blue Chips Company
- d. Central Depository System (CDS)
- e. Investment Trusts

(05 x 02 = 10 Marks)

(Total 20 Marks)

03. (i) The common stock of **John Keells Company Ltd.** paid Rs 2 in dividends last year. Dividends are expected to grow at an 8% annual rate for an indefinite number of years.

- a. If John Keells Company Ltd. current market price is Rs 30, what is the stock's expected rate of return?
- b. If your required rate of return is 10% what is the stock's expected rate of return?
- c. Should you make the investment?

(07 marks)

(ii) **Singer Sri Lanka Ltd.** preferred stock is selling for Rs 35 in the market & pays Rs. 4 annual dividend

- a. What is the expected rate of return on the stock?
- b. If an investor's required rate of return is 10% what is the value of the stock to that investor?
- c. Should the investor acquire the stock?

(07 marks)

(iii) A bond has an 8% coupon rate. The interest is paid semi annually & the bond matures in 10 years. Its par value is Rs 1000, if your required rate of return is 8%

- a. What is the value of the bond?
- b. What is its value if the interest is paid annually?

(06 marks)

(Total 20 Marks)

04. The capital structure of Nestle Company Ltd. as on 31-03-2010 is as follows:

Equity capital : 10 Million equity shares of Rs. 10 each	Rs. 100 million
Reserves	Rs. 2 million
14% Debentures of 100 each	Rs. 3 million

For the year ended 31-03-2010 the company has paid equity dividend at 20%. As the company is a market leader with good future, dividend is likely to grow by 5% every year. The equity shares are now traded at Rs. 80 per share in the stock exchange. Income-tax rate applicable to the company is 50%.

Required:

- The current weighted cost of capital (10 marks)
- The company has plans to raise a further Rs. 50 million by way of long-term loan at 16% interest. When this takes place the market value of the equity shares is expected to fall to Rs. 50 per share. What will be the new weighted average cost of capital of the Company? (10 marks)

(Total 20 Marks)