EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

DEPARTMENT OF COMMERCE

THIRD YEAR FIRST SEMESTER EXAMINATION IN BACHELOR OF COMMERCE-

2002/2003 (JUNE/JULY- 2003)

COM-3034 FINANCIAL INSTITUTIONS AND CAPITAL MARKET

ANSWER ALL QUESTIONS

NON-PROGRAMMABLE CALCULATOR PERMITTED   TIME:THREE HOURS

01.i. Explain the nature of a Central Bank?   (06 Marks)

  ii. What are the principal functions of a Central Bank?   (06 Marks)

  iii. Discuss the economic significance of a Central Bank serving as a " Reserve Bank".

                                                                         (08 Marks)

02. i. What measures may be adopted for the establishment of a sound banking system in a

     developing   economy?   (07 Marks)

  ii. What do you mean by the term "Off-balance sheet activities" Explain   (07 Marks)

  iii. "Merchant Banks can be distinguished from other Banks because they provide different

     services" Discuss with suitable examples.   (06 Marks)

03. i. Describe the functions of financial systems?   (05Marks)

  ii. Distinguished the terms "Money Market" and "Capital Market"?   (05 Marks)

  iii. What do you mean by the term "Internal Foreign Exchange market".   (05 Marks)

  iv. What are the factors that contribute to the growth of Sri Lankan Money Market?

    (05 Marks)

04 a. X Co Ltd issued Rs.1000 par value 20 years maturity bonds with a coupon rate 20% and at

    the end of the 1st year after issue, the interest rate in the economy rose from 20% to 24%.

    i.   What is the value of the bond at the end of the first year ?

    ii.   What is the value of the bond at the end of the second year ?

    iii.   If we assume that the interest rate in the economy falls to 15% at the end of the first

          year ,calculate the value of the bond at the end of the second year?.   (10 Marks)

b. i. What do you mean by risk premium? (02 Marks)

ii. You are given the following data regarding a security of "N" company and the security of market.

Economic condition	Probability (P_i)	Rate of return of security N	Rate of return of market
A	0.3	10	08
B	0.2	-15	-11
C	0.1	12	10
D	0.2	05	08
E	0.4	-04	-02

Calculate the Beta co-efficient of N company (β)?

05. i. Walmert company's current stock price is Rs.54 and its last dividend was Rs.2. In view of Walmart's strong financial position and its consequent low risk, its required rate of return (Ks) is only 12%. If dividends are expected to grow at a constant rate (g) in the future and if Ks is expected to remain at 12%, What is Walmert's expected share price for the four(4) years from now?

(05 Marks)

ii. The given information is related with equity shares.

Ks = Shareholders' required rate of return – 14%

N = Years of supernormal growth – 03

g_s = Rate of growth first two years during supernormal growth period - 20%

g_s = Rate of growth for the third year during supernormal growth period - 30%

g_n = Rate of constant growth after the super normal period -10%

D_o = Last dividend the company paid - Rs.1.73

a. Calculate the value of the share today?

b. Calculate P_1 and P_2 ?

c. Calculate the dividend yield and capital gain yield for year 1st, 2nd and 3rd year?

(15Marks)