

EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE & MANAGEMENT

THIRD YEAR SECOND SEMESTER EXAMINATION IN B.COM 2005/2006 (REPEAT) (NOV/DEC)

COM 3034 FINANCIAL INSTITUTIONS AND CAPITAL MARKET

Answer all questions

Time : 03 Hours

Non Programmable Calculator permitted.

01. (a) "The introduction of the Central Depository System (CDS) boosted the activities of the Share Market of Sri Lanka considerably".

Explain the role of CDS in share market and its benefits to the investors as well as to the economy of Sri Lanka.

(08 marks)

- (b) "Trading Floor is the special feature in the Secondary Market". Explain.

(06 marks)

- (c) "One of the most important function of Central Bank of Sri Lanka is 'Bankers' Banks". Explain and support this statement.

(06 marks)

(Total 20 marks)

02. (a) "Employee Provident Fund (EPF) is the largest single investible fund in Sri Lanka". Evaluate the role of Employee Provident Fund in promoting the financial market of Sri Lanka.

(08 marks)

- (b) Merchant banks are specialized non – Banking Financial Institutions which are engaged in providing various services in Financial Market. Describe.

(06 marks)

- (c) Insurance companies are considered as contractual saving financial institutions in Financial Market. Describe how the insurance corporations and companies in Sri Lanka play the Financial intermediary role in Financial Market.

(06 marks)

(Total 20 marks)

03. (a) What is the difference between money market and capital market?
(10 marks)
- (b) Explain the instruments used in a developing money market and capital market, with special reference to Sri Lanka.
(10 marks)
- (Total 20 marks)

04. (a) Describe the following concepts with suitable examples from the current business in Sri Lanka.
- (i) Par value
 - (ii) Maturity date
 - (iii) Coupon interest rate
 - (iv) Call provision
 - (v) Coupon payment
- (05 x 02 = 10 marks)
- (b) Hayles Ltd. issued a new series of bonds on January 1, 1977. The bonds were sold at par (Rs. 1,000), have a 12 percent coupon rate, mature in 30 years, on December 31, 2006. Coupon payments are made semiannually (on June 30 and December 31).
- (i) What was the Yield To Maturity (YTM) of Hayleys's bonds on January 1, 1977?
(02 marks)
 - (ii) What was the price of the bond on January 1, 1982, 05 years later, assuming that the level of interest had fallen to 10 percent?
(02 marks)
 - (iii) Find the current yield and capital gains yield on the bond on January 1, 1982, given the price as determined in part (ii).
(02 marks)
 - (iv) On July 1, 1997 Hayleys's bonds sold for Rs. 896.64. What was the Yield To Maturity (YTM) at that date?
(02 marks)
 - (v) What were the current yield and capital gains yield on July 1, 1997?
(02 marks)
- (Total 20 marks)

05. 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)