UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER 2014

COURSE TITLE	:	FINANCIAL INSTITUTIONS AND MARKETS
COURSE CODE	:	AC 310
DEGREE/DIPLOMA	:	DEGREE
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	:	1. TOTAL NUMBER OF QUESTIONS ON THE PAPER: FOUR (4)
		2. ATTEMPT ALL FOUR (4) QUESTIONS
		3. THE MARKS AWARDED FOR A QUESTION ARE INDICATED AT THE END OF EACH QUESTION
		4. WHERE APPLICABLE, ALL WORKINGS ARE TO BE SHOWN
		5. CALCULATIONS ARE TO BE MADE TO TWO DECIMAL PLACES OF ACCURACY, UNLESS OTHERWISE INSTRUCTED.
SPECIAL REQUIREMENTS	:	NONE
NOTE	:	YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF THE ACCURACY OF LANGUAGE, THE GENERAL QUALITY OF EPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

THIS QUESITON PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1

a) What will the relationship be between coupon rate, current yield and yield to maturity for bonds setting at discounts from par?

(5 MARKS)

b) Assume a bond with par value of E 1,000 and coupon rate of 8% per annum. Calculate the bond prices at the different market interest rates by completing the following table:-

Time to Maturity	4%	6%	8%	10%	12%
1 Year					
10 Years					
20 Years					
30 Years					

(20 MARKS)

TOTAL: **(25 MARKS)**

QUESTION 2

a) If futures prices are equally likely to go up as to go down by each trading day, what are the expected proceeds from marking to market? The expected interest earnings on those proceeds?

(5 MARKS)

(b) Explain the difference between hedging and speculating within the context of futures markets strategies

(20 MARKS)

TOTAL: (25 MARKS)

QUESTION 3

a) Discuss the three functions performed by commercial banks in Swaziland

(6 MARKS)

b) Discuss the various exchange rate policy options available to different countries

(7 MARKS)

c) You are given the following:-

	Spot	One month forward	Three months forward
US (dollar)	1.5200 – 1.5210	0.32-0.27c pm	0.89-0.84 pm
Cananda (dollar)	1.8630-1.8640	0.30-0.20c pm	0.90-0.80 pm
Nertherlands (guilder)	4.05¼ - 4.06¼	2⅜ - 1⅞c pm	6¾ - 6¼ pm
Belgium (franc)	72.20 – 72.30	10 - 20c dis	45 – 55 dis
Denmark (krone)	13.01-13.02	44 - 5⅝ ore dis	18⅜ - 19¾ dis
Germany (DM)	3.06½ - 3.07½	2 - 1½ pf pm	5½ -5 pm

Calculate the cost or value in sterling to a customer who wishes to:-

a) Buy US$ 14 000 one month forward from his bank
b) Buy Canadian $ 25 000 spot
c) Buy Belgian francs 75 000 three months forward
d) Sell guilders 28 000 one month forward
e) Sell Danish kroner 20 000 three months forward
f) Sell DM 6 000 one month forward

(12 MARKS)

TOTAL: **(25 MARKS)**

QUESTION 4

a) Differentiate between: a Call Option and a Put Option

(3 MARKS)

b) American Option and European Option

(3 MARKS)

c) Suppose that the Black Berry's stock price at the excise date is E1200 and the exercise price of the call is E1100. What is the profit on one option contract?

(2 MARKS)

d) After a 10 for 1 split, the stock price is E120, the exercise price is E110, and the option holder now can purchase 1000 shares. Demonstrate that the split leaves option profits unaffected

(6 MARKS)

e) Write short explanatory notes on the following:-

    (i)   Foreign currency Option   **(5 MARKS)**

    (ii)   Futures Option   **(4 MARKS)**

    (iii)   Interest Rate Options   **(4 MARKS)**

TOTAL: **(25 MARKS)**