UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER 2018

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	:	PV TABLES
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) Write explanatory notes on the following:-

(i)	Government bonds	*(3 MARKS)*
(ii)	Junk Bonds	*(3 MARKS)*
(iii)	Inflation Linked Bonds	*(3 MARKS)*
(iv)	Convertible Bonds	*(3 MARKS)*

b) (i) Nusana has a savings account that provides her with 15.25% interest every year. Last year the inflation rate was 6%; This year the inflation rate declined to 15.75%. What are the real rates of interest that she earned last year and this year?

(6 MARKS)

(ii) You have to make a choice between two bonds. Bond A makes semi annual payments, has a maturity of five years, a coupon rate of 12.5%. Bond B has a maturity of six years and a coupon rate of 12.2%. The nominal value of each bond is E15000 and the interest rate in the market is 12.35%.

a. What is the value of bond A?
b. What is the value of bond B?
c. Which bond is trading a premium and which is trading at a discount?

(7 MARKS)

TOTAL *(25 MARKS)*

QUESTION 2

a) Write explanatory notes on the following:-

i. Put Option
ii. Call Option
iii. American Option
iv. European Option

(10 MARKS)

b) An investor thinks that the price of shares in Mavuso LTD which are currently quoted at E2.00, are likely to increase. She therefore buys Call Options on 5000 shares with an exercise price of E2.10 and a premium of E600 (equivalent to 600/5,000 = 12 cents per share).

Required:

Calculate the profit or loss and percentage return the above investor will make assuming the price of the shares on the maturity date is:

i) E2.40
ii) E2.04

And calculate the profit or loss that would have arisen if the investor had, instead of buying the call option, purchased the underlying shares.

(15 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
Canada (dollar)	1.8630-1.8640	0.30-0.20c pm	0.90-0.80 pm
Netherlands' (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

TOTAL: (25 MARKS)

QUESTION 4

a) Explain the difference between Hedging and Speculating within the context of futures markets strategies.

(18 MARKS)

b) Explain the difference between An Option and Futures contract

TOTAL: (25 MARKS)