UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER 2018

COURSE TITLE	:	FINANCIAL INSTITUTIONS AND MARKETS
COURSE CODE	:	ACF 313/IDE 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) Discuss the Salient Features of the Bretton Woods Agreement and why the agreement collapsed in 1971.

(10 MARKS)

(b) 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 Pound Sterling to a customer who wishes to:-

a) Buy US$ 28 000 one month forward from his bank
b) Buy Canadian $ 50 000 spot
c) Buy Belgian francs 150 000 three months forward
d) Sell guilders 56 000 one month forward
e) Sell Danish kroner 40 000 three months forward
f) Sell DM 12 000 one month forward

(15 MARKS)

TOTAL ***(25 MARKS)***

QUESTION 2

a. (i) Discuss any five different types of bonds that a company might issue.
(10 MARKS)

b. (i) Ngcamphalala Ltd is issuing a bond with a maturity of 12 years, after which E15,000 will be paid to the bondholder. The market interest rate is 7%. The bondholder receives a coupon of E1 050 every year. What price is the bond selling for at present?
(2 MARKS)

(ii) Mamba wants to invest in an E11 000 bond that is currently selling for E11 050 and matures in four years. The YTM is 12%.

a) What is the coupon payment? **(2 MARKS)**
b) What is the coupon rate? **(2 MARKS)**

(iii) UNESWA 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 5.75%. What are the real rates of interest that she earned last year and this year?
(4 MARKS)

(iv) You have to make a choice between two bonds. Bond A makes semi-annual payments, has a maturity of five years and 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 E15 000 and the interest rate in the market is 12.35%.

a) What is the value of Bond A? **(1 MARK)**
b) What is the value of Bond B? **(1 MARK)**
c) Which bond is trading at a premium and which is trading at a discount? **(3 MARKS)**

(15 MARKS)

TOTAL: ***(25 MARKS)***

QUESTION 3

(a) Write explanatory notes on the following:-

i) Nasdaq **(2.5 MARKS)**

ii) The Dow Jones Industrial average **(2.5 MARKS)**

iii) Standard & Poor's 500 composite index (S & P 500) **(2.5 MARKS)**

iv) The FTSE/JSE all share index **(2.5 MARKS)**

(10 MARKS)

(b) i) A preference share will pay a dividend of E2,75 in the forthcoming year and every year thereafter, i.e. dividends are not expected to grow. Investors require a return of 10% on this share. What is the intrinsic value of this preference share? **(5 MARKS)**

ii) The Domini Company's next dividend payment will be E4 per share. The dividends are anticipated to maintain a 6% growth rate forever. If the company's shares are currently selling for E45 per share, what is the investor's required return? **(5 MARKS)**

iii) The NMMU Company is a start-up company. No dividends will be paid to ordinary shareholders over the next five years, as profits need to be retained to finance the company's expansion. The company will then, in year 6, begin to pay a dividend of E6 per share. Analysts expect that the company's dividends will increase by 5% per year thereafter. If the required return on this share is 23%, what is the intrinsic value of the share? **(5 MARKS)**

(15 MARKS)

TOTAL: (25 MARKS)

QUESTION 4

a) Briefly discuss the difference between the Futures Price and the Value of the Futures contract?

(5 MARKS)

b) Explain the difference between Hedging and Speculating, giving examples where possible.

(20 MARKS)

TOTAL: ***(25 MARKS)***

TABLE A-2 *Present Value Factors (at R Percent) for $1 Received at the End of N Periods*

	R =												
N	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%
1	.990	.980	.971	.962	.952	.943	.935	.926	.917	.909	.901	.893	.885
2	.980	.961	.943	.925	.907	.890	.873	.857	.842	.826	.812	.797	.783
3	.971	.942	.915	.889	.864	.840	.816	.794	.772	.751	.731	.712	.693
4	.961	.924	.888	.855	.823	.792	.763	.735	.708	.683	.659	.636	.613
5	.951	.906	.863	.822	.784	.747	.713	.681	.650	.621	.593	.567	.543
6	.942	.888	.837	.790	.746	.705	.666	.630	.596	.564	.535	.507	.480
7	.933	.871	.813	.760	.711	.665	.623	.583	.547	.513	.482	.452	.425
8	.923	.853	.789	.731	.677	.627	.582	.540	.502	.467	.434	.404	.376
9	.914	.837	.766	.703	.645	.592	.544	.500	.460	.424	.391	.361	.333
10	.905	.820	.744	.676	.614	.558	.508	.463	.422	.386	.352	.322	.295
11	.896	.804	.722	.650	.585	.527	.475	.429	.388	.350	.317	.287	.261
12	.887	.788	.701	.625	.557	.497	.444	.397	.356	.319	.286	.257	.231
13	.879	.773	.681	.601	.530	.469	.415	.368	.326	.290	.258	.229	.204
14	.870	.758	.661	.577	.505	.442	.388	.340	.299	.263	.232	.205	.181
15	.861	.743	.642	.555	.481	.417	.362	.315	.275	.239	.209	.183	.160
16	.853	.728	.623	.534	.458	.394	.339	.292	.252	.218	.188	.163	.141
17	.844	.714	.605	.513	.436	.371	.317	.270	.231	.198	.170	.146	.125
18	.836	.700	.587	.494	.416	.350	.296	.250	.212	.180	.153	.130	.111
19	.828	.686	.570	.475	.396	.331	.277	.232	.194	.164	.138	.116	.098
20	.820	.673	.554	.456	.377	.312	.258	.215	.178	.149	.124	.104	.087
21	.811	.660	.538	.439	.359	.294	.242	.199	.164	.135	.112	.093	.077
22	.803	.647	.522	.422	.342	.278	.226	.184	.150	.123	.101	.083	.068
23	.795	.634	.507	.406	.326	.262	.211	.170	.138	.112	.091	.074	.060
24	.788	.622	.492	.390	.310	.247	.197	.158	.126	.102	.082	.066	.053
25	.780	.610	.478	.375	.295	.233	.184	.146	.116	.092	.074	.059	.047
30	.742	.552	.412	.308	.231	.174	.131	.099	.075	.057	.044	.033	.026
35	.706	.500	.355	.253	.181	.130	.094	.068	.049	.036	.026	.019	.014
40	.672	.453	.307	.208	.142	.097	.067	.046	.032	.022	.015	.011	.008
45	.639	.410	.264	.171	.111	.073	.048	.031	.021	.014	.009	.006	.004
50	.608	.372	.228	.141	.087	.054	.034	.021	.013	.009	.005	.003	.002

TABLE A-2 *Present Value Factors (at R Percent) for $1 Received at the End of N Periods (Continued)*

	R =												
N	14%	15%	16%	18%	20%	22%	24%	25%	30%	35%	40%	45%	50%
1	.877	.870	.862	.847	.833	.820	.806	.800	.769	.741	.714	.690	.667
2	.769	.756	.743	.718	.694	.672	.650	.640	.592	.549	.510	.476	.444
3	.675	.658	.641	.609	.579	.551	.524	.512	.455	.406	.364	.328	.296
4	.592	.572	.552	.516	.482	.451	.423	.410	.350	.301	.260	.226	.198
5	.519	.497	.476	.437	.402	.370	.341	.328	.269	.223	.186	.156	.132
6	.456	.432	.410	.370	.335	.303	.275	.262	.207	.165	.133	.108	.088
7	.400	.376	.354	.314	.279	.249	.222	.210	.159	.122	.095	.074	.059
8	.351	.327	.305	.266	.233	.204	.179	.168	.123	.091	.068	.051	.039
9	.308	.284	.263	.225	.194	.167	.144	.134	.094	.067	.048	.035	.026
10	.270	.247	.227	.191	.162	.137	.116	.107	.073	.050	.035	.024	.017
11	.237	.215	.195	.162	.135	.112	.094	.086	.056	.037	.025	.017	.012
12	.208	.187	.168	.137	.112	.092	.076	.069	.043	.027	.018	.012	.008
13	.182	.163	.145	.116	.093	.075	.061	.055	.033	.020	.013	.008	.005
14	.160	.141	.125	.099	.078	.062	.049	.044	.025	.015	.009	.006	.003
15	.140	.123	.108	.084	.065	.051	.040	.035	.020	.011	.006	.004	.002
16	.123	.107	.093	.071	.054	.042	.032	.028	.015	.008	.005	.003	.002
17	.108	.093	.080	.060	.045	.034	.026	.023	.012	.006	.003	.002	.001
18	.095	.081	.069	.051	.038	.028	.021	.018	.009	.005	.002	.001	.001
19	.083	.070	.060	.043	.031	.023	.017	.014	.007	.003	.002	.001	
20	.073	.061	.051	.037	.026	.019	.014	.012	.005	.002	.001		
21	.064	.053	.044	.031	.022	.015	.011	.009	.004	.002	.001		
22	.056	.046	.038	.026	.018	.013	.009	.007	.003	.001	.001		
23	.049	.040	.033	.022	.015	.010	.007	.006	.002	.001			
24	.043	.035	.028	.019	.013	.008	.006	.005	.002	.001			
25	.038	.030	.024	.016	.010	.007	.005	.004	.001	.001			
30	.020	.015	.012	.007	.004	.003	.002	.001					
35	.010	.008	.006	.003	.002	.001	.001						
40	.005	.004	.003	.001	.001								
45	.003	.002	.001	.001									
50	.001	.001	.001										

TABLE A-4 *Present Value Annuity Factors (at R Percent Per Period) for $1 Received per Period for Each of N Periods*

N	R = 1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379	6.974	6.604
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.120	6.729
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201	7.702	7.250	6.840
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365	7.839	7.366	6.938
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514	7.963	7.469	7.025
21	18.857	17.011	15.415	14.029	12.821	11.764	10.836	10.017	9.292	8.649	8.075	7.562	7.102
22	19.660	17.658	15.937	14.451	13.163	12.042	11.061	10.201	9.442	8.772	8.176	7.645	7.170
23	20.456	18.292	16.444	14.857	13.489	12.303	11.272	10.371	9.580	8.883	8.266	7.718	7.230
24	21.243	18.914	16.936	15.247	13.799	12.550	11.469	10.529	9.707	8.985	8.348	7.784	7.283
25	22.023	19.523	17.413	15.622	14.094	12.783	11.654	10.675	9.823	9.077	8.422	7.843	7.330
30	25.808	22.396	19.600	17.292	15.372	13.765	12.409	11.258	10.274	9.427	8.694	8.055	7.496
35	29.409	24.999	21.487	18.665	16.374	14.498	12.948	11.655	10.567	9.644	8.855	8.176	7.586
40	32.835	27.355	23.115	19.793	17.159	15.046	13.332	11.925	10.757	9.779	8.951	8.244	7.634
45	36.095	29.490	24.519	20.720	17.774	15.456	13.606	12.108	10.881	9.863	9.008	8.283	7.661
50	39.196	31.424	25.730	21.482	18.256	15.762	13.801	12.233	10.962	9.915	9.042	8.304	7.675

TABLE A-4 *Present Value Annuity Factors (at R Percent Per Period) for $1 Received per Period for Each of N Periods (Continued)*

N	R = 14%	15%	16%	18%	20%	22%	24%	25%	30%	35%	40%	45%	50%
1	0.877	0.870	0.862	0.847	0.833	0.820	0.806	0.800	0.769	0.741	0.714	0.690	0.667
2	1.647	1.626	1.605	1.566	1.528	1.492	1.457	1.440	1.361	1.289	1.224	1.165	1.111
3	2.322	2.283	2.246	2.174	2.106	2.042	1.981	1.952	1.816	1.696	1.589	1.493	1.407
4	2.914	2.855	2.798	2.690	2.589	2.494	2.404	2.362	2.166	1.997	1.849	1.720	1.605
5	3.433	3.352	3.274	3.127	2.991	2.864	2.745	2.689	2.436	2.220	2.035	1.876	1.737
6	3.889	3.784	3.685	3.498	3.326	3.167	3.020	2.951	2.643	2.385	2.168	1.983	1.824
7	4.288	4.160	4.039	3.812	3.605	3.416	3.242	3.161	2.802	2.508	2.263	2.057	1.883
8	4.639	4.487	4.344	4.078	3.837	3.619	3.421	3.329	2.925	2.598	2.331	2.109	1.922
9	4.946	4.772	4.607	4.303	4.031	3.786	3.566	3.463	3.019	2.665	2.379	2.144	1.948
10	5.216	5.019	4.833	4.494	4.192	3.923	3.682	3.571	3.092	2.715	2.414	2.168	1.965
11	5.453	5.234	5.029	4.656	4.327	4.035	3.776	3.656	3.147	2.752	2.438	2.185	1.977
12	5.660	5.421	5.197	4.793	4.439	4.127	3.851	3.725	3.190	2.779	2.456	2.196	1.985
13	5.842	5.583	5.342	4.910	4.533	4.203	3.912	3.780	3.223	2.799	2.469	2.204	1.990
14	6.002	5.724	5.468	5.008	4.611	4.265	3.962	3.824	3.249	2.814	2.478	2.210	1.993
15	6.142	5.847	5.575	5.092	4.675	4.315	4.001	3.859	3.268	2.825	2.484	2.214	1.995
16	6.265	5.954	5.668	5.162	4.730	4.357	4.033	3.887	3.283	2.834	2.489	2.216	1.997
17	6.373	6.047	5.749	5.222	4.775	4.391	4.059	3.910	3.295	2.840	2.492	2.218	1.998
18	6.467	6.128	5.818	5.273	4.812	4.419	4.080	3.928	3.304	2.844	2.494	2.219	1.999
19	6.550	6.198	5.877	5.316	4.843	4.442	4.097	3.942	3.311	2.848	2.496	2.220	1.999
20	6.623	6.259	5.929	5.353	4.870	4.460	4.110	3.954	3.316	2.850	2.497	2.221	1.999
21	6.687	6.312	5.973	5.384	4.891	4.476	4.121	3.963	3.320	2.852	2.498	2.221	2.000
22	6.743	6.359	6.011	5.410	4.909	4.488	4.130	3.970	3.323	2.853	2.498	2.222	2.000
23	6.792	6.399	6.044	5.432	4.925	4.499	4.137	3.976	3.325	2.854	2.499	2.222	2.000
24	6.835	6.434	6.073	5.451	4.937	4.507	4.143	3.981	3.327	2.855	2.499	2.222	2.000
25	6.873	6.464	6.097	5.467	4.948	4.514	4.147	3.985	3.329	2.856	2.499	2.222	2.000
30	7.003	6.566	6.177	5.517	4.979	4.534	4.160	3.995	3.332	2.857	2.500	2.222	2.000
35	7.070	6.617	6.215	5.539	4.992	4.541	4.164	3.998	3.333	2.857	2.500	2.222	2.000
40	7.105	6.642	6.233	5.548	4.997	4.544	4.166	3.999	3.333	2.857	2.500	2.222	2.000
45	7.123	6.654	6.242	5.552	4.999	4.545	4.166	4.000	3.333	2.857	2.500	2.222	2.000
50	7.133	6.661	6.246	5.554	4.999	4.545	4.167	4.000	3.333	2.857	2.500	2.222	2.000