

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER 2019

- 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 EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

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

**QUESTION 1**

- (a) Discuss the credit rating of bonds by the credit rating agencies giving examples where possible.

**(10 MARKS)**

- b) Assume a bond with par value of E1,000 and coupon rate of 8% per annum. Calculate the bond prices at the different market interest rates by completing the following table:-

<b>Time to Maturity</b>	<b>5%</b>	<b>7%</b>	<b>8%</b>	<b>10%</b>	<b>12%</b>
1 Year					
10 Years					
20 Years					
30 Years					

**(15 MARKS)****TOTAL****(25 MARKS)**

**QUESTION 2**

- 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:

	<u>Spot</u>	<u>One month forward</u>	<u>Three months forward</u>
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	2¾ - 1¾c pm	6¼ - 6¼ pm
Belgium (franc)	72.20 – 72.30	10 - 20c dis	45 – 55 dis
Denmark (krone)	13.01-13.02	44 - 5½ ore dis	18¾ - 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:-

- Buy US\$ 42 000 one month forward from his bank
- Buy Canadian \$ 75 000 spot
- Buy Belgian francs 225 0600 three months forward
- Sell guilders 84 000 one month forward
- Sell Danish kroner 60 000 three months forward
- Sell DM 18 000 one month forward

**(12 MARKS)****TOTAL (25 MARKS)**

**QUESTION 3**

- a) Discuss the difference between trading in stocks and trading in futures contracts.

**(10 MARKS)**

- b) Explain the differences between hedging and speculating within the context of futures market strategies.

**(15 MARKS)**

**TOTAL: (25 MARKS)**

**QUESTION 4**

Explain the following terms used with puts and calls:-

a) Strike Price (6 MARKS)

b) American Option (6 MARKS)

c) European Option (6 MARKS)

d) Out of the money Option (7 MARKS)

**TOTAL: (25 MARKS)**

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

N	R =												
	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)

N	R =													
	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	.001	
20	.073	.061	.051	.037	.026	.019	.014	.012	.005	.002	.001	.001	.001	
21	.064	.053	.044	.031	.022	.015	.011	.009	.004	.002	.001	.001	.001	
22	.056	.046	.038	.026	.018	.013	.009	.007	.003	.001	.001	.001	.001	
23	.049	.040	.033	.022	.015	.010	.007	.006	.002	.001	.001	.001	.001	
24	.043	.035	.028	.019	.013	.008	.006	.005	.002	.001	.001	.001	.001	
25	.038	.030	.024	.016	.010	.007	.005	.004	.001	.001	.001	.001	.001	
30	.020	.015	.012	.007	.004	.003	.002	.001	.001	.001	.001	.001	.001	
35	.010	.008	.006	.003	.002	.001	.001	.001	.001	.001	.001	.001	.001	
40	.005	.004	.003	.001	.001	.001	.001	.001	.001	.001	.001	.001	.001	
45	.003	.002	.001	.001	.001	.001	.001	.001	.001	.001	.001	.001	.001	
50	.001	.001	.001	.001	.001	.001	.001	.001	.001	.001	.001	.001	.001	