

**UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING**

MAIN 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) Name and discuss the three elements of a bond contract.

(6 MARKS)

(b) Explain why there is an inverse relationship between the price of a bond and its yield.

(3 MARKS)

(c) 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% pa. Bond B makes annual payments, has a maturity of six years and a coupon rate of 10% pa. The nominal value of each bond is E30 000 and the interest rate in the market is 14%.

(i) What is the value of bond A? **(7 MARKS)**

(ii) What is the value of bond B? **(5 MARKS)**

(iii) Which bond is trading at a premium and which is trading at a discount? **(4 MARKS)**

TOTAL (25 MARKS)

QUESTION 2

- (a) Discuss the allied participants/players/entities in the financial systems which are necessary for the financial system to work efficiently.

(5 MARKS)

- (b) The international financial crisis of 2007/08 is well documented. Discuss possible causes and precautions taken to ensure that it does not occur again.

(20 MARKS)

TOTAL: (25 MARKS)

QUESTION 3

a) Explain the following roles of banks:-

i. As Intermediaries. (3 MARKS)

ii. As payment service providers. (3 MARKS)

iii. As facilitators of investment activity by raising funds. (3 MARKS)

b) Comment on the statement that “there is a mismatch between the assets and liabilities of banks”.

(4 MARKS)

(c) Discuss the role of the Central Bank of Eswatini in the financial system.

(12 MARKS)

TOTAL: (25 MARKS)

QUESTION 4

- a) Explain the most important characteristics of ordinary shares.

(6 MARKS)

- b) Explain the statement: ***“Preference shares are hybrid securities in that they have features of ordinary shares and debt”.***

(10 MARKS)

- c) Using the Gordon growth model, calculate the value of a share that paid a dividend of 100 cents this year if the shareholders required rate of return is 15 per cent and dividends are expected to grow at a constant rate of 6 percent.

(5 MARKS)

- d) Differentiate between order and quote driven equity markets.

(4 MARKS)

TOTAL: (25 MARKS)

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
 n = number of periods until payment

Periods (n)	Discount rate (r)										
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	1
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	2
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	3
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	4
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	5
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	6
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	7
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	8
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	9
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	10
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	11
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	12
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	13
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	14
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	15
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	1
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	2
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	3
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	4
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	5
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	6
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	7
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	8
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	9
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	10
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	11
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	12
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	13
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	14
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	15