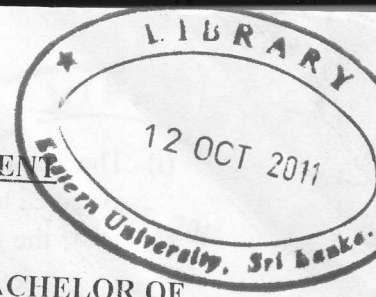


EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE



THIRD YEAR FIRST SEMESTER EXAMINATION IN BACHELOR OF
COMMERCE -2009/2010 (AUGUST 2011)

(PROPER)

DED 3043 – Capital Market and Financial Institutions

Answer all questions

Time: 03 Hours

Non-Programmable calculator permitted

01. (i) Describe how the **Central Bank of Sri Lanka** is functioning as an **Economic Advisor** to the Government of Sri Lanka. (10 Marks)
- (ii) Briefly explain the various domestic and foreign banking activities carried out by the state and private **Commercial Banks in Sri Lanka** today. (10 Marks)
- (Total 20 Marks)
- 02 (i) Briefly explain how the **Insurance Companies** play the financial intermediaries role in the Financial Market in Sri Lanka. (05 Marks)
- (ii) Define the term **Unit Trust** and explain the major parties involved in it. (05 Marks)
- (iii) What is meant by **Merchant Banks**? Explain the various services provided by them. (05 Marks)
- (iv) Briefly explain how the **Employee Provident Fund (EPF)** and **Employee Trust Fund (ETF)** contribute to the development of the financial market in Sri Lanka. (05 Marks)
- (Total 20 Marks)
03. (i) Differentiate between **Money Market** and **Capital Market**? (10 Marks)
- (ii) List out and explain the instruments used in money market and capital market, with special reference to Sri Lanka. (10 Marks)
- (Total 20 Marks)

04.

- (i) The common stock of A Ltd., paid Rs 2 as dividends last year. Dividends are expected to grow at an 8% annual rate for an indefinite number of years.
- If the stock of A Ltds. current market price is Rs 30, what will be the stock's expected rate of return?
 - If the investor's required rate of return is 10% what will be the stock's expected rate of return?
 - Should you make the investment? Explain.

(07 Marks)

- (ii) **Balogic Ltd.** preferred stock is selling for Rs 35 in the market & pays Rs. 4 as annual dividend.
- What will be the expected rate of return on the stock?
 - If the investor's required rate of return is 10% what is the value of the stock for this investor?
 - Should the investor acquire the stock? Explain.

(07 Marks)

- (iii) A bond has an 8% coupon rate. The interest is paid semi annually & the bond matures in 10 years. Its par value is Rs 1000. If your required rate of return is 8%

- What is the value of the bond?
- What is its value if the interest is paid annually?

(06 Marks)

(Total 20 Marks)

05. Stocks **A** and **B** have the following probability distributions of expected future returns.

Probability	Stock A (%)	Stock B (%)
0.1	-25	-40
0.2	05	0
0.4	15	16
0.2	30	40
0.1	45	66

- Calculate the expected rate of return for each stock. (05 Marks)
- Calculate the standard deviation for each stock. (05 Marks)
- Calculate the coefficient of variation for each stock. (05 Marks)
- Is it possible that most investors might regard stock **B** as being less risky than stock **A**? Explain (05 Marks)

(Total 20 Marks)