

Eastern University, Sri Lanka
2001

EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
PART II EXAMINATION IN COMMERCE/BUSINESS
ADMINISTRATION
1998/99 (OCT/NOV 2000)

COM 305 CAPITAL MARKETS & FINANCIAL INSTITUTIONS

Time : 03 Hours

Answer any **five** questions.

01. a. 'Discuss on the 'Role of Central Bank in Credit Creation'
(10 marks)
- b. Briefly describe the new technologies in relation to capital market development, which have been introduced in Central Bank?
(05 marks)
- c. What are the services given by the currency department of Central Bank?
(05 marks)
02. a. List five (5) names of Foreign Commercial Banks in Sri Lanka?
(05 marks)
- b. Briefly explain the services given by Commercial Banks in Sri Lanka?
(15 marks)
03. a. What is the usage of all share price index of Colombo Stock Exchange (CSE)? And How can you calculate the all share price index?
(04 marks)
- b. What are the Roles of Stock brokers in Colombo Stock Exchange?
(04 marks)
- c. Give four (4) examples for Stock Brokers in Colombo Stock Exchange?
(04 marks)
- d. What are the benefits you can obtain by investing your money in a Stock Market?
(08 marks)
04. a. Differentiate between the following:
(i) The Merchant Bank and Commercial Bank
(ii) Employees Provident Fund and Employees Trust Fund
(iii) Board of Investment and Capital market
(iv) Specific Risk and Portfolio Risk
(16 marks)

b. Briefly describe the terms 'Insurer' and 'Insured' (04 marks)

05. a. What do you mean by the term 'Capital Market'? (02 marks)

b. 'The Role of Unit Trust takes an important part in the Capital Market'. Discuss on the above statement. (18 marks)

06. a. The Brain Company Limited has a share that will pay a dividend of Rs. 10 per share at the end of the year. Its current selling price is at Rs. 60 and is estimated that the price will be Rs. 66 after a year. The required rate of return is 10%.

(i) What is the present value of the share?

(ii) Should the share be purchased?

(08 marks)

b. Usha Company Limited has been growing rapidly during the last few years. Its growth is at a high rate Usha Company evaluated and forecasted the future growth rate of its earnings and dividends. They are given below for the next three years.

1st Year - 16%

2nd Year - 18%

3rd Year - 20%

After the year three, the growth rate will be constant at 10%. Company's last dividend (D_0) and required rate of return (K_s) were Rs. 2.78 and 14%, respectively.

(i) Calculate the present value of a share?

(ii) Calculate \hat{P}_5 and \hat{P}_6 ?

(iii) Calculate the capital gain yield and dividend yield of a share for the years 5,6,7 and 8?

(12 marks)

07. a. The standard deviation of return of security 'M' is 20 percent and of Market Portfolio is 15 percent. Calculate Beta of 'M' it,

(i) $\text{Cor}_{YM} = 0.70$

(ii) $\text{Cor}_{YM} = + 0.4$

(iii) $\text{Cor}_{YM} = - 2.5$

(06 marks)

- b. The Market situation during a period is furnished below.
- The required return of an average security (K_M) is 20 percent.
 - Beta co-efficient of security P (B_P) is 2?
 - Risk Premium of security P (PR_P) is 4 percent?
 - Risk Premium of security Q (PR_Q) is 6 percent?

You are required to calculate,

- (i) Market Risk Premium. (RP_M)?
- (ii) Treasury Bond Yield at current time (KR_F)?
- (iii) Beta Co-efficient of security Q (B_Q)?
- (iv) Required return of security P (K_P)?
- (v) Required return of security Q (K_Q)?

(14 marks)

08. a. The 'Mother Land' Company Limited has a 10 years debenture that pays Rs. 120 annual interest. Debenture will be redeemed on maturity at Rs. 1000/- what will be the value of the debenture if the required rate of interest is 14 percent 16 percent and 18 percent?

(06 Marks)

- b. What will be the yield of a 16 percent perpetual bond with a Rs. 1000 par value, when the current price is Rs. 800, Rs. 1300 or Rs. 1000?

(06 marks)

- c. A perpetuity Bond has a par value of Rs. 1000, on 1.7.1994 it is sold for Rs. 908.87. It has a yield to maturity (YTM) of 14% in the year 1999. The Bond was issued on 1.1.1987.

The interest is paid semi annually you are required to calculate:

- (i) The annual interest of this Bond?
- (ii) The price of Bond on 1.7.2005 (Assume the Bond has a maturity period of 20 years and the market interest rate is 15%)

(08 marks)