

**THE OPEN UNIVERSITY OF SRI LANKA  
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME  
LEVEL 4 / INTERIM LEVEL  
ASSIGNMENT TEST – 2008  
MONEY AND CAPITAL MARKETS – MCU 2208  
DURATION : TWO (02) HOURS**



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**DATE : 24<sup>th</sup> May 2008**

**TIME : 10.00 a.m – 12.00 noon**

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*Answer any three (03) questions. Each question carries equal marks.*

*Use of non programmable calculators are allowed.*

- (1) Define the term “financial intermediation” and discuss its significance in the modern economy.
- (2) Describe the factors to be considered when making of an investment decision.
- (3)
  - a) What is capital market and how do bond markets fit into the definition of capital markets?
  - b) Elixir Drug Company sold Rs.500 million worth bonds in January 2007. These bonds were issued in Rs.1000/= denominations with an original maturity of 5 years and a coupon rate of 13%. Determine the value of bond to an investor, whose required rate of return is 14%. Interest is paid in May and November every year.
- (4) Describe the risk and return characteristics of the following financial assets.
  - a) Treasury bills
  - b) Treasury bonds
  - c) Corporate debentures
  - d) Equity shares
  - e) Preference shares

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