THE OPEN UNIVERSITY OF SRI LANKA
BACHELAOR OF MANAGEMENT STUDIES
DEGREE PROGRAMME
LEVEL 04
FINAL EXAMINATION – 2009
MCU 2208 – MONEY AND CAPIATL MARKETS
DURATION: THREE (03) HOURS

DATE: 01.03.2009 **TIME: 9.30 a.m – 12.30 p.m**

ANSWER ANY FIVE (05) QUESTIONS. EACH QUESTION CARY 20 MARKS.
USE OF NON PROGRAMMABLE CALCULATORS ARE ALLOWED.

01. a). Briefly explain the basic principle of valuation of equity.
(05 Marks)

b). ABC Company's current dividend per share is Rs 3.00. The Company's earnings and dividends are expected to grow at an annual rate of 12% per annum indefinitely. Investors expect a rate of return on the Company's shares of 14%. What is the price for this Company's share?
(08 Marks)

c). A Company is expected to pay a dividend of Rs 4.00 per share next year. The dividends are expected to grow perpetually at a rate of 8% per annum. Find out the share price today if the cost of equity is 12%.
(07 Marks)

02). a). Briefly describe the major types of risk associated with Bonds.
(08 Marks)

b). Briefly explain what is meant by Perpetual Bond.
(04 Marks)

c). A ten year bond of Rs 1,000.00 has an annual rate of interest of 12%. The interest is paid semi annually. If the required rate of return is 16%, what is the value of this bond?
(04 Marks)

d). If a bond of Rs 1,000.00 with a 7% coupon rate and the required rate of return of 8%, what is the value of this bond?
(Consider as a perpetual bond) (04 Marks)

03. a). Briefly describe what is Central Depository System (CDS) and what are the services that CDS provides to the investors.
(10 Marks)

b). Describe the role of Stock Broker.
(05 Marks)

c). Describe the role of Securities and Exchange Commission (SEC).
(05 Marks)

04. a). List out five (05) main functions of Commercials Banks and briefly explain each of them.
(05 Marks)

b). How does the Central Bank regulates the Commercial Banks.
(08 Marks)

c). Analyze the impact on interest rate in money market.
(07 Marks)

05. a). Differentiate leasing companies from finance companies.
(07 Marks)

c). What are the main functions of Finance Companies?
(06 Marks)

b). For an insurance contract to take place, what are the conditions that should be satisfied?
(07 Marks)

06. a). Describe the investment instruments used in money and capital markets.
(10 Marks)

b). Explain the term Financial Market and discuss how it helps the economy of a country.
(10 Marks)

07. Write short notes on the following topics clearly indicating the concepts and meanings.

a). Milanka Price Index and All Share Price Index.
b). Credit Rating.
c). Treasury Bonds and Treasury Bills.
d). Primary Issues and Secondary Issues.
f). Price Time Priority.
(4X5 Marks)

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Table 1
Present Value of Re. 1 = $1/(1+r)^n$

Year	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
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.789	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149
21	0.811	0.660	0.538	0.439	0.359	0.294	0.242	0.199	0.164	0.135
22	0.803	0.647	0.522	0.422	0.342	0.278	0.226	0.184	0.150	0.123
23	0.795	0.634	0.507	0.406	0.326	0.262	0.211	0.170	0.138	0.112
24	0.788	0.622	0.492	0.390	0.310	0.247	0.197	0.158	0.126	0.102
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092
26	0.772	0.598	0.464	0.361	0.281	0.220	0.172	0.135	0.106	0.084
27	0.764	0.586	0.450	0.347	0.268	0.207	0.161	0.125	0.098	0.076
28	0.757	0.574	0.437	0.333	0.255	0.196	0.150	0.116	0.090	0.069
29	0.749	0.563	0.424	0.321	0.243	0.185	0.141	0.107	0.082	0.063
30	0.742	0.552	0.412	0.308	0.231	0.174	0.131	0.099	0.075	0.057

Table 1
Present Value of Re. 1 = $1/(1+r)^n$

Year	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
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026
21	0.112	0.093	0.077	0.064	0.053	0.044	0.037	0.031	0.026	0.022
22	0.101	0.083	0.068	0.056	0.046	0.038	0.032	0.026	0.022	0.018
23	0.091	0.074	0.060	0.049	0.040	0.033	0.027	0.022	0.018	0.015
24	0.082	0.066	0.053	0.043	0.035	0.028	0.023	0.019	0.015	0.013
25	0.074	0.059	0.047	0.038	0.030	0.024	0.020	0.016	0.013	0.010
26	0.066	0.053	0.042	0.033	0.026	0.021	0.017	0.014	0.011	0.009
27	0.060	0.047	0.037	0.029	0.023	0.018	0.014	0.011	0.009	0.007
28	0.054	0.042	0.033	0.026	0.020	0.016	0.012	0.010	0.008	0.006
29	0.048	0.037	0.029	0.022	0.017	0.014	0.011	0.008	0.006	0.005
30	0.044	0.033	0.026	0.020	0.015	0.012	0.009	0.007	0.005	0.004

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Table 2

Present Value of An Annuity of Re. 1 for n periods $= \frac{1 - \frac{1}{(1+r)^n}}{r}$

Periods (n)	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
2	1.970	1.941	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.901	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.766	4.623	4.486	4.353
7	6.727	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.651	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.565	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.470	8.982	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.366	9.786	9.252	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.254	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.132	11.348	10.635	9.986	9.393	8.853	8.358	7.904	7.487	7.103
14	13.002	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.863	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.716	13.577	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.560	14.291	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.396	14.992	13.753	12.659	11.689	10.828	10.059	9.372	8.756	8.201
19	17.224	15.678	14.323	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.043	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514
21	18.855	17.011	15.415	14.029	12.821	11.764	10.835	10.017	9.292	8.649
22	19.658	17.657	15.937	14.451	13.163	12.041	11.061	10.201	9.442	8.772
23	20.453	18.292	16.443	14.857	13.488	12.303	11.272	10.371	9.580	8.883
24	21.241	18.913	16.935	15.247	13.798	12.550	11.469	10.529	9.707	8.985
25	22.021	19.523	17.413	15.622	14.094	12.783	11.654	10.675	9.823	9.077
26	22.793	20.120	17.877	15.983	14.375	13.003	11.826	10.810	9.929	9.161
27	23.557	20.706	18.327	16.329	14.643	13.210	11.987	10.935	10.027	9.237
28	24.314	21.281	18.764	16.663	14.898	13.406	12.137	11.051	10.116	9.307
29	25.063	21.844	19.188	16.984	15.141	13.591	12.278	11.158	10.198	9.370
30	25.805	22.396	19.600	17.292	15.372	13.765	12.409	11.258	10.274	9.427

Table 2

Present Value of an Annuity of Re 1 for n periods $= \frac{1 - \frac{1}{(1+r)^n}}{r}$

Periods (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
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.546	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.206	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870
21	8.075	7.562	7.102	6.687	6.312	5.973	5.665	5.384	5.127	4.891
22	8.176	7.645	7.170	6.743	6.359	6.011	5.696	5.410	5.149	4.909
23	8.266	7.718	7.230	6.792	6.399	6.044	5.723	5.432	5.167	4.925
24	8.348	7.784	7.283	6.835	6.434	6.073	5.746	5.451	5.182	4.937
25	8.422	7.843	7.330	6.873	6.464	6.097	5.766	5.467	5.195	4.948
26	8.488	7.896	7.372	6.906	6.491	6.118	5.783	5.480	5.206	4.956
27	8.548	7.943	7.409	6.935	6.514	6.136	5.798	5.492	5.215	4.964
28	8.602	7.984	7.441	6.961	6.534	6.152	5.810	5.502	5.223	4.970
29	8.650	8.022	7.470	6.983	6.551	6.166	5.820	5.510	5.229	4.975
30	8.694	8.055	7.496	7.003	6.566	6.177	5.829	5.517	5.235	4.979