

UNIVERSITY OF COLOMBO, SRI LANKA  
FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration (Level I- Semester IV) Repeat Examination  
November/December- 2018

**FIN 1200- Financial Institutions and Markets**

**Two (02) Hours**

Instructions to candidates:

1. Answer **all** the questions
2. Use of calculators is permitted.

1.
  - i. Financial market facilitates to transfer funds over the space and time. Elaborate this statement with appropriate examples. (06 Marks)
  - ii. What is mean by institutionalization of financial market? What contributes to the institutionalization of financial markets? (06 Marks)
  - iii. The effective regulatory framework is important for the stability of the financial system.
    - a) List three forms of regulations in Financial Markets and Institution. (03 Marks)
    - b) Explain briefly how the above regulation forms would contribute for the sound financial system. You may draw some examples from the Sri Lankan context. (05 Marks)
2.
  - i. Zeta Ltd has issued 3,000,000 ordinary shares of Rs. 10 each, which is at present selling for Rs 18 per share. The company plans to issue rights to purchase one new share at a price of Rs. 14 per share for every three shares held. Mr. Kamal owns 3,000 shares thinks that he will suffer a loss in his personal wealth because the new shares are being offered at a price lower than the current market price.

On the assumptions that the actual value of the shares will be equal to the theoretical ex-right price, assess the impact on Mr. Kamal's wealth if he undertakes different options available to him, when there is a right issue announcement from the company.

(15 Marks)

- ii. Why companies issue Stock Splits and Reverse Split? What are the expected impact on share prices following such issues? Justify your answer.

(09 Marks)

**(Total: 24 Marks)**

3. The Acqua Ltd has raised 20 million debt capital four years ago by issuing Rs.1, 000 face value callability debentures with 16 percent coupon interest, paid semi-annually in 15 years maturity. According to the debenture agreement, Acqua Ltd can call back debenture after four years paying a 5 percent premium, call related expenditure is 0.5 percent of the face value, current interest rate has dropped to 12 percent in the market

However a recently hired finance manager has advised to exercise the callability option as current interest rate has dropped in the market. Accordingly company is going to issue similar type of debentures at a rate of 12 percent. The issue cost of new debenture is 3 percent of the issue value.

The CEO of the company consult you in order to gain some insight in to the matter as he feels there are some hidden cost involved. Accordingly, he expects explanation for the following:

- i. Prepare a brief report while showing cost and benefits associated with issuing debentures as suggested by financial manager. Assume that purpose of the report is to give the best recommendation to the CEO.

(14 Marks)

- ii. The CEO is very passive about issuing callability debentures as investors may not fully subscribe to the issue. What risk is involved for investors in callability debentures?

(04 Marks)

- iii. List types of risk involved in bond investment from the investors point of view and briefly state the strategies to overcome at least four types of risk list above.

(08 Marks)

**(Total: 26 Marks)**

4.

- i. What are the difference between Call and Put options used in derivative market  
(04 Marks)
- ii. Ms. Lesha buy a Call option contract by paying a premium of 2 rupees per share. The current market price and exercise price of the stock is Rs. 40. At the end of the three months when the option expires the share price is Rs. 45. Assume that the contract is for 100 shares.
- a) How much is the payoff for both buyer and the seller of the call option?  
(03 Marks)
- b) How much is the profit or lose made by both Buyer and Seller of the option?  
(03 Marks)
- c) Should Ms. Lesha exercise the option? Why?  
(03 Marks)
- iii. Briefly explain as to how an Arbitrator, Speculator and Hedger can use derivative instruments in order to achieve their motives.  
(06 Marks)
- iv. Why do domestic governments try to prevent the flow of domestic currency abroad for investment in foreign countries?  
(04 Marks)
- v. The Exchange rate between two currencies, the UK Pound (£) and the Southland Dollar (\$\$) are listed in the financial press as follows.

Spot rates	4.7250 £/ \$\$	0.21164 \$\$/£
365 Day Rates	4.7506 £/ \$\$	0.21050 \$\$/£

The money market interest rate for 1 year deposits in UK pounds (£) is 7.5% annualized. What is implied about interest rates in Southland?

(04 Marks)

- vi. Suppose annual inflation rates in the U.S. and Brazil are expected to be 5% and 9%, respectively over the next year. If the current spot rate for the Brazilian cruzeiro is 3342.62 cruzeiros per dollar. Find out what would be the best estimate of the cruzeiro's future spot rate one year from now

(03 Marks)

**(Total: 30 Marks)**

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### Present Value Factor for a Single Future Amount

(Interest rate = r, Number of periods = n)

n \ r	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8547
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.7432	0.7305
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.6407	0.6244
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.5523	0.5337
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4761	0.4561
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.4104	0.3898
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.3538	0.3332
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.3050	0.2848
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.2630	0.2434
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.2267	0.2080
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.3173	0.2875	0.2607	0.2366	0.2149	0.1954	0.1778
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2858	0.2567	0.2307	0.2076	0.1869	0.1685	0.1520
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2575	0.2292	0.2042	0.1821	0.1625	0.1452	0.1299
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2320	0.2046	0.1807	0.1597	0.1413	0.1252	0.1110
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.2090	0.1827	0.1599	0.1401	0.1229	0.1079	0.0949
16	0.8528	0.7284	0.6232	0.5339	0.4581	0.3936	0.3387	0.2919	0.2519	0.2176	0.1883	0.1631	0.1415	0.1229	0.1069	0.0930	0.0811
17	0.8444	0.7142	0.6050	0.5134	0.4363	0.3714	0.3166	0.2703	0.2311	0.1978	0.1696	0.1456	0.1252	0.1078	0.0929	0.0802	0.0693
18	0.8360	0.7002	0.5874	0.4936	0.4155	0.3503	0.2959	0.2502	0.2120	0.1799	0.1528	0.1300	0.1108	0.0946	0.0808	0.0691	0.0592
19	0.8277	0.6864	0.5703	0.4746	0.3957	0.3305	0.2765	0.2317	0.1945	0.1635	0.1377	0.1161	0.0981	0.0829	0.0703	0.0596	0.0506
20	0.8195	0.6730	0.5537	0.4564	0.3769	0.3118	0.2584	0.2145	0.1784	0.1486	0.1240	0.1037	0.0868	0.0728	0.0611	0.0514	0.0433
21	0.8114	0.6598	0.5375	0.4388	0.3589	0.2942	0.2415	0.1987	0.1637	0.1351	0.1117	0.0926	0.0768	0.0638	0.0531	0.0443	0.0370
22	0.8034	0.6468	0.5219	0.4220	0.3418	0.2775	0.2257	0.1839	0.1502	0.1228	0.1007	0.0826	0.0680	0.0560	0.0462	0.0382	0.0316
23	0.7954	0.6342	0.5067	0.4057	0.3256	0.2618	0.2109	0.1703	0.1378	0.1117	0.0907	0.0738	0.0601	0.0491	0.0402	0.0329	0.0270
24	0.7876	0.6217	0.4919	0.3901	0.3101	0.2470	0.1971	0.1577	0.1264	0.1015	0.0817	0.0659	0.0532	0.0431	0.0349	0.0284	0.0231
25	0.7798	0.6095	0.4776	0.3751	0.2953	0.2330	0.1842	0.1460	0.1160	0.0923	0.0736	0.0588	0.0471	0.0378	0.0304	0.0245	0.0197
26	0.7720	0.5976	0.4637	0.3607	0.2812	0.2198	0.1722	0.1352	0.1064	0.0839	0.0663	0.0525	0.0417	0.0331	0.0264	0.0211	0.0169
27	0.7644	0.5859	0.4502	0.3468	0.2678	0.2074	0.1609	0.1252	0.0976	0.0763	0.0597	0.0469	0.0369	0.0291	0.0230	0.0182	0.0144
28	0.7568	0.5744	0.4371	0.3335	0.2551	0.1956	0.1504	0.1159	0.0895	0.0693	0.0538	0.0419	0.0326	0.0255	0.0200	0.0157	0.0123
29	0.7493	0.5631	0.4243	0.3207	0.2429	0.1846	0.1406	0.1073	0.0822	0.0630	0.0485	0.0374	0.0289	0.0224	0.0174	0.0135	0.0105
30	0.7419	0.5521	0.4120	0.3083	0.2314	0.1741	0.1314	0.0994	0.0754	0.0573	0.0437	0.0334	0.0256	0.0196	0.0151	0.0116	0.0090
31	0.7346	0.5412	0.4000	0.2965	0.2204	0.1643	0.1228	0.0920	0.0691	0.0521	0.0394	0.0298	0.0226	0.0172	0.0131	0.0100	0.0077
32	0.7273	0.5306	0.3883	0.2851	0.2099	0.1550	0.1147	0.0852	0.0634	0.0474	0.0355	0.0266	0.0200	0.0151	0.0114	0.0087	0.0066
33	0.7201	0.5202	0.3770	0.2741	0.1999	0.1462	0.1072	0.0789	0.0582	0.0431	0.0319	0.0238	0.0177	0.0132	0.0099	0.0075	0.0056
34	0.7130	0.5100	0.3660	0.2636	0.1904	0.1379	0.1002	0.0730	0.0534	0.0391	0.0288	0.0212	0.0157	0.0116	0.0086	0.0064	0.0048
35	0.7059	0.5000	0.3554	0.2534	0.1813	0.1301	0.0937	0.0676	0.0490	0.0356	0.0259	0.0189	0.0139	0.0102	0.0075	0.0055	0.0041
36	0.6989	0.4902	0.3450	0.2437	0.1727	0.1227	0.0875	0.0626	0.0449	0.0323	0.0234	0.0169	0.0123	0.0089	0.0065	0.0048	0.0035
37	0.6920	0.4806	0.3350	0.2343	0.1644	0.1158	0.0818	0.0580	0.0412	0.0294	0.0210	0.0151	0.0109	0.0078	0.0057	0.0041	0.0030
38	0.6852	0.4712	0.3252	0.2253	0.1566	0.1092	0.0765	0.0537	0.0378	0.0267	0.0190	0.0135	0.0096	0.0069	0.0049	0.0036	0.0026
39	0.6784	0.4619	0.3158	0.2166	0.1491	0.1031	0.0715	0.0497	0.0347	0.0243	0.0171	0.0120	0.0085	0.0060	0.0043	0.0031	0.0022
40	0.6717	0.4529	0.3066	0.2083	0.1420	0.0972	0.0668	0.0460	0.0318	0.0221	0.0154	0.0107	0.0075	0.0053	0.0037	0.0026	0.0019
41	0.6650	0.4440	0.2976	0.2003	0.1353	0.0917	0.0624	0.0426	0.0292	0.0201	0.0139	0.0096	0.0067	0.0046	0.0032	0.0023	0.0016
42	0.6584	0.4353	0.2890	0.1926	0.1288	0.0865	0.0583	0.0395	0.0268	0.0183	0.0125	0.0086	0.0059	0.0041	0.0028	0.0020	0.0014
43	0.6519	0.4268	0.2805	0.1852	0.1227	0.0816	0.0545	0.0365	0.0246	0.0166	0.0112	0.0076	0.0052	0.0036	0.0025	0.0017	0.0012
44	0.6454	0.4184	0.2724	0.1780	0.1169	0.0770	0.0509	0.0338	0.0226	0.0151	0.0101	0.0068	0.0046	0.0031	0.0021	0.0015	0.0010
45	0.6391	0.4102	0.2644	0.1712	0.1113	0.0727	0.0476	0.0313	0.0207	0.0137	0.0091	0.0061	0.0041	0.0027	0.0019	0.0013	0.0009

**Present Value Factor for an Ordinary Annuity**

(Interest rate = r, Number of periods = n)

n \ r	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8547
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.7125	1.6901	1.6681	1.6467	1.6257	1.6052	1.5852
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4437	2.4018	2.3612	2.3216	2.2832	2.2459	2.2096
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.1024	3.0373	2.9745	2.9137	2.8550	2.7982	2.7432
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6959	3.6048	3.5172	3.4331	3.3522	3.2743	3.1993
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.2305	4.1114	3.9975	3.8887	3.7845	3.6847	3.5892
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684	4.7122	4.5638	4.4226	4.2883	4.1604	4.0386	3.9224
8	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	5.1461	4.9676	4.7988	4.6389	4.4873	4.3436	4.2072
9	8.5660	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.5370	5.3282	5.1317	4.9464	4.7716	4.6065	4.4506
10	9.4713	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.8892	5.6502	5.4262	5.2161	5.0188	4.8332	4.6586
11	10.3676	9.7868	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	6.2065	5.9377	5.6869	5.4527	5.2337	5.0286	4.8364
12	11.2551	10.5753	9.9540	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.4924	6.1944	5.9176	5.6603	5.4206	5.1971	4.9884
13	12.1337	11.3484	10.6350	9.9856	9.3936	8.8527	8.3577	7.9038	7.4869	7.1034	6.7499	6.4235	6.1218	5.8424	5.5831	5.3423	5.1183
14	13.0037	12.1062	11.2961	10.5631	9.8986	9.2950	8.7455	8.2442	7.7862	7.3667	6.9819	6.6282	6.3025	6.0021	5.7245	5.4675	5.2293
15	13.8651	12.8493	11.9379	11.1184	10.3797	9.7122	9.1079	8.5595	8.0607	7.6061	7.1909	6.8109	6.4624	6.1422	5.8474	5.5755	5.3242
16	14.7179	13.5777	12.5611	11.6523	10.8378	10.1059	9.4466	8.8514	8.3126	7.8237	7.3792	6.9740	6.6039	6.2651	5.9542	5.6685	5.4053
17	15.5623	14.2919	13.1661	12.1657	11.2741	10.4773	9.7632	9.1216	8.5436	8.0216	7.5488	7.1196	6.7291	6.3729	6.0472	5.7487	5.4746
18	16.3983	14.9920	13.7535	12.6593	11.6896	10.8276	10.0591	9.3719	8.7556	8.2014	7.7016	7.2497	6.8399	6.4674	6.1280	5.8178	5.5339
19	17.2260	15.6785	14.3238	13.1339	12.0853	11.1581	10.3356	9.6036	8.9501	8.3649	7.8393	7.3658	6.9380	6.5504	6.1982	5.8775	5.5845
20	18.0456	16.3514	14.8775	13.5903	12.4622	11.4699	10.5940	9.8181	9.1285	8.5136	7.9633	7.4694	7.0248	6.6231	6.2593	5.9288	5.6278
21	18.8570	17.0112	15.4150	14.0292	12.8212	11.7641	10.8355	10.0168	9.2922	8.6487	8.0751	7.5620	7.1016	6.6870	6.3125	5.9731	5.6648
22	19.6604	17.6580	15.9369	14.4511	13.1630	12.0416	11.0612	10.2007	9.4424	8.7715	8.1757	7.6446	7.1695	6.7429	6.3587	6.0113	5.6964
23	20.4558	18.2922	16.4436	14.8568	13.4886	12.3034	11.2722	10.3711	9.5802	8.8832	8.2664	7.7184	7.2297	6.7921	6.3988	6.0442	5.7234
24	21.2434	18.9139	16.9355	15.2470	13.7986	12.5504	11.4693	10.5288	9.7066	8.9847	8.3481	7.7843	7.2829	6.8351	6.4338	6.0726	5.7465
25	22.0232	19.5235	17.4131	15.6221	14.0939	12.7834	11.6536	10.6748	9.8226	9.0770	8.4217	7.8431	7.3300	6.8729	6.4641	6.0971	5.7662
26	22.7952	20.1210	17.8768	15.9828	14.3752	13.0032	11.8258	10.8100	9.9290	9.1609	8.4881	7.8957	7.3717	6.9061	6.4906	6.1182	5.7831
27	23.5596	20.7069	18.3270	16.3296	14.6430	13.2105	11.9867	10.9352	10.0266	9.2372	8.5478	7.9426	7.4086	6.9352	6.5135	6.1364	5.7975
28	24.3164	21.2813	18.7641	16.6631	14.8981	13.4062	12.1371	11.0511	10.1161	9.3066	8.6016	7.9844	7.4412	6.9607	6.5335	6.1520	5.8099
29	25.0658	21.8444	19.1885	16.9837	15.1411	13.5907	12.2777	11.1584	10.1983	9.3696	8.6501	8.0218	7.4701	6.9830	6.5509	6.1656	5.8204
30	25.8077	22.3965	19.6004	17.2920	15.3725	13.7648	12.4090	11.2578	10.2737	9.4269	8.6938	8.0552	7.4957	7.0027	6.5660	6.1772	5.8294
31	26.5423	22.9377	20.0004	17.5885	15.5928	13.9291	12.5318	11.3498	10.3428	9.4790	8.7331	8.0850	7.5183	7.0199	6.5791	6.1872	5.8371
32	27.2696	23.4683	20.3888	17.8736	15.8027	14.0840	12.6466	11.4350	10.4062	9.5264	8.7686	8.1116	7.5383	7.0350	6.5905	6.1959	5.8437
33	27.9897	23.9886	20.7658	18.1476	16.0025	14.2302	12.7538	11.5139	10.4644	9.5694	8.8005	8.1354	7.5560	7.0482	6.6005	6.2034	5.8493
34	28.7027	24.4986	21.1318	18.4112	16.1929	14.3681	12.8540	11.5869	10.5178	9.6086	8.8293	8.1566	7.5717	7.0599	6.6091	6.2098	5.8541
35	29.4086	24.9986	21.4872	18.6646	16.3742	14.4982	12.9477	11.6546	10.5668	9.6442	8.8552	8.1755	7.5856	7.0700	6.6166	6.2153	5.8582
36	30.1075	25.4888	21.8323	18.9083	16.5469	14.6210	13.0352	11.7172	10.6118	9.6765	8.8786	8.1924	7.5979	7.0790	6.6231	6.2201	5.8617
37	30.7995	25.9695	22.1672	19.1426	16.7113	14.7368	13.1170	11.7752	10.6530	9.7059	8.8996	8.2075	7.6087	7.0868	6.6288	6.2242	5.8647
38	31.4847	26.4406	22.4925	19.3679	16.8679	14.8460	13.1935	11.8289	10.6908	9.7327	9.8186	8.2210	7.6183	7.0937	6.6338	6.2278	5.8673
39	32.1630	26.9026	22.8082	19.5845	17.0170	14.9491	13.2649	11.8786	10.7255	9.7570	9.8357	8.2330	7.6268	7.0997	6.6380	6.2309	5.8695
40	32.8347	27.3555	23.1148	19.7928	17.1591	15.0463	13.3317	11.9246	10.7574	9.7791	9.8511	8.2438	7.6344	7.1050	6.6418	6.2335	5.8713
41	33.4997	27.7995	23.4124	19.9931	17.2944	15.1380	13.3941	11.9672	10.7866	9.7991	9.8649	8.2534	7.6410	7.1097	6.6450	6.2358	5.8729
42	34.1581	28.2348	23.7014	20.1856	17.4232	15.2245	13.4524	12.0067	10.8134	9.8174	8.9774	8.2619	7.6469	7.1138	6.6478	6.2377	5.8743
43	34.8100	28.6616	23.9819	20.3708	17.5459	15.3062	13.5070	12.0432	10.8380	9.8340	8.9886	8.2696	7.6522	7.1173	6.6503	6.2394	5.8755
44	35.4555	29.0800	24.2543	20.5488	17.6628	15.3832	13.5579	12.0771	10.8605	9.8491	8.9988	8.2764	7.6568	7.1205	6.6524	6.2409	5.8765
45	36.0945	29.4902	24.5187	20.7200	17.7741	15.4558	13.6055	12.1084	10.8812	9.8628	9.0079	8.2825	7.6609	7.1232	6.6543	6.2421	5.8773