



ZIMBABWE

MINISTRY OF HIGHER AND TERTIARY EDUCATION

**HIGHER EDUCATION EXAMINATIONS COUNCIL
(HEXCO)**

NATIONAL DIPLOMA

IN

BANKING AND FINANCE

SUBJECT: Money and Capital Markets

PAPER NO: 524/S03

MARCH/APRIL 2013 EXAMINATION

REQUIREMENTS

INSTRUCTIONS TO CANDIDATE

1. Answer ANY FIVE (5) questions.
2. Each question carries 20 marks.

This paper consists of 3 printed pages.

QUESTION 1

- a) Explain the differences between money market and capital market. (15 marks)
- b) Discuss the term financial disintermediation with reference to Zimbabwean financial markets. (5 marks)

QUESTION 2

Discuss how the following variables affect security prices:

- a) Money supply (4 marks)
- b) Interest rates (5 marks)
- c) Exchange rates (3 marks)
- d) Income levels (4 marks)
- e) GDP (4 marks)

QUESTION 3

- a) Determine the value of a bond with a par value of \$1000, maturity of four (4) years, coupon rate of 7% compounded semi-annually and required return of 6%. (8 marks)
- b) Interpret the meaning of your answer in (a) above. (2 marks)
- c) Determine the value of a common stock with the following information (assuming a constant dividend growth rate):

Dividend last year	\$10	
Cost of equity	22%	
Ploughback ratio	0.6	
ROE	20%	(6 marks)
- d) Describe market timing as an investment strategy. (4 marks)

QUESTION 4

- a) One year interest rates over the next five years is expected to be 5%, 6%, 7%, 8% and 9% respectively. Using the pure expectations theory, calculate interest rates on a two-year bond and five-year bond. Explain what will happen to the yield curve. (6 marks)
- b) Suppose that one year interest rates over the next five years are expected to be 5%, 6%, 7%, 8%, and 9% respectively. Investors' preferences for holding short-term bonds have the liquidity premiums for one year to five year bonds as 0%, 0.25%, 0.5%, 0.75% and 1% respectively. Calculate the interest rate on a two year bond and five year bond. (10 marks)
- c) Compare the results in (a) and (b) above. (4 marks)

QUESTION 5

- a) A company is planning to deposit funds in a special investment account for the next five years from today. It expects to earn an interest rate of 7.5% annually for the next five years. Deposits are made as follows: \$20 000 today, \$35 000 two years from today, \$40 000 four years from today and \$20 000 five years from today.

Required:

Determine the value in the account after five (5) years. (10 marks)

- b) An investor purchased a security today at \$30. At the end of the year, its market price is \$70. A dividend of \$15 was paid during the year.

Required:

- i) Calculate the holding period return. (3 marks)
- ii) Determine the holding period yield. (2 marks)
- c) Determine the price to be paid by an investor for a T-bill today, if its par value is \$1000, discount rate is 7.5%, and maturity is 6 months. (5 months)

QUESTION 6

- a) With the aid of clearly labelled diagrams, show how equity risk can be hedged through the use of options. (10 marks)
- b) Evaluate the role of technology in financial markets. (10 marks)

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