

MID-WESTERN UNIVERSITY
FACULTY OF MANAGEMENT
FINAL EXAMINATION: 2073
BACHELOR OF BUSINESS STUDIES (BBS)
SEMESTER - VII

Subject: Financial Institutions and Markets
Full Marks: 100

Course Code: FIN 475
Time: 3:00 Hours

You are required to answer in your own words as far as applicable. Figures in the margins indicate full marks.

SECTION A: VERY SHORT ANSWER QUESTIONS (10 X 2 = 20 MARKS)

Answer all questions.

- Q1. State the tools of monetary policy.
- Q2. Describe the organizational structure of Nepal Rastra Bank.
- Q3. The 30-day T bill are currently yielding 5.5%, inflation premium is 3.25% and default risk premium is 2.15%, calculate the real risk free rate.
- Q4. What are the major financial statements used by commercial banks.
- Q5. Explain the structure of mutual funds in Nepal.
- Q6. List out the types of financial markets in Nepal.
- Q7. An open end mutual fund has a net assets value of Rs 12 per share. It is sold with a front end load of 6 %. What is the offering price?
- Q8. What is money market?
- Q9. What are the major types of financial institutions in Nepal? List them.
- Q10. If interest income is Rs. 1,411.98 and interest expenses is Rs. 413.05, interest earning assets and interest paying liabilities are Rs. 24,055.87 and Rs. 25,047.02 respectively, calculate the interest spread rate.

SECTION B: SHORT ANSWER QUESTIONS (6 X 8 = 48 MARKS)

Answer any SIX questions:

- Q11. What are the tools used by Nepal Rastra Bank to implement monetary policy? (8)
- Q12. Differentiate between primary market and secondary market. (8)
- Q13. Form a stock price index, from the three common stocks listed below. These three stocks issued no additional shares and paid no stock dividend.

Stock	Total shares outstanding	Market price in day 1	Market price in day 2
Middle	50,000	40	60
Mite	10,000	20	70
Maximum	100,000	60	80

- i) If the new three stocks index is value weighted, what will its value be on day 2? (4)
- ii) If the new three stocks index is price weighted, what will its value be on day 2? (4)
- Q14. Interest rate on 6 years treasury securities is currently 6% while the interest rate on 8 years treasury securities is currently 9%. If pure expectation theory is correct, what does market believe that 2 years security will be yielding 6 years from now? (8)
- Q15. What is Net Asset Value (NAV)? How do you determine net assets value of mutual fund? Explain with suitable example. (8)

Q16. The following information is for Shadow Wood National Bank:

Items	Amount (In '000')
Interest income	1,875
Interest expenses	1,210
Non- interest income	501
Total assets	15,765
Non -interest expenses	685
Securities gain	21
Provisions for loan losses	381
Earning assets	12,612
Total liabilities	15,440
Taxes	16
Common stock outstanding	145,000

Required:

- a) ROE b) ROA c) Net interest margin
d) Earnings per share e) Net non-interest margin f) Net operating income. (8)
- Q17. The X fund, a close end investment company has a portfolio of assets worth Rs 500 million. It has liabilities of Rs 2 million. It also has 40 million shares outstanding.
- a) What is the fund NAV? (4)
b) If the fund trades at 8% discount from its NAV, what is the market price of the funds? (4)
- Q18. Differentiate between open end and close end mutual fund. (8)

SECTION C: LONG ANSWER QUESTIONS (2 X 16 = 32 MARKS)

Answer any TWO questions:

- Q19. Suppose most investors expect the rate of inflation to be 7% next year, to fall to 5 % during the following year, and then to remain at a rate of 3% thereafter. Assume that the real risk free rate (k^*) is 2% and the maturity risk premium on treasury securities rise from zero on every short term bonds by 0.2% points for each year to maturity up to a limit of 1% point on 5 year or long term bonds. You are required to calculate the interest rate for 1, 2, 3, 5, 10 and 20 years treasury securities and plot the yield curve. (16)
- Q20. What role does central bank play for smooth functioning of the financial system and economy as a whole? Discuss. (16)
- Q21. What are the key determinants of interest rate? Explain each of these determinants and term structure of interest rate. (16)

