

BACHELOR OF ARTS EXAMINATION, 2018

(3rd Year, 5th Semester)

ECONOMICS (HONOURS)

FINANCIAL ECONOMICS

Time : Two hours

Full Marks : 30

Answer questions number 1 and any two questions from the rest.

1. Answer any five of the following questions.

5X2

(a) What is the relation between the repo rate and money supply?

(b) If the present value of an annuity due and an ordinary annuity are equal, the deposits in each period and the discount rates are also the same, which of the two will have a higher maturity period?

(c) What will be the effective annual interest rate if the interest rate is 12 % p.a. compounded weekly?

(d) How does the call money market differ from the capital market?

(e) Company A has an average collection period of 30 days and company B has an average collection period of 45 days. Which of the two companies have a better debtor's turnover ratio? Briefly explain your answer.

(f) Under what circumstances does an investor prefer free cash flow model over dividend growth model in valuing equity?

2. (a) For the company XYZ the dividend is going to be high for the next three years but dividend will grow at an unequal rate. For the next three years dividends are going to be Rs 30, Rs 60 and Rs 90 respectively. Starting from the 4th year the dividends are expected to grow at a rate of 5% p.a. for the next two years. Then the growth rate will slow down to 2% p.a. and the dividends are expected to grow at that rate forever. What will be the price of the equity of company XYZ if the required rate of return is 10%?

(b) A bond has 8 years remaining to maturity. Its face value is Rs1000, yield to maturity is 10.23% and current market price is Rs 880. Calculate the coupon rate on the bond. What will be the coupon rate if the market price is Rs 1000?

[Turn over

(c) Let company XYZ's net profit margin be α , total asset turnover ratio be β times, debt to total asset ratio be γ . What is the company's return on equity? 4+2+4

3. a) Which financial ratio(s) will you use to judge the performance on following specific aspects of a firm's performance and how will you interpret the ratio: 5+5

- i. Profitability of the company from its main operation
- ii. How accurately the market values the company
- iii. Liquidity position of the company
- iv. Efficiency in managing accounts receivable
- v. Efficiency in managing debt

(b) State whether the following statements are right or wrong & briefly explain your answer

- i. An increase in dividend and interest income improves a firm's operating profit
- ii. An increase in investment in mutual funds reduces a company's cash flow from financing
- iii. If a company issues new shares, it will always result in increasing the company's share premium reserve
- iv. Profit before interest and taxes is always higher than Operating profit.
- v. If last year's surplus is positive, funds available for appropriation will be higher than profit after tax.

4. What will be the effect of open market operations on assets and liabilities of the banking system?