

BACHELOR OF ARTS EXAMINATION, 2017

(3rd Year, 5th Semester)

ECONOMICS (HONOURS)

FINANCIAL ECONOMICS

Time : Two hours

Full Marks : 30

Answer question number 1 and any two questions from the rest:

Full marks:30

1. Answer the following questions :

5X2

- a. Point out two differences between equity and debt.
- b. What is an SPO? When is this instrument used?
- c. Explain the concept of NAV.
- d. What is yield to maturity of a bond?
- e. If you have to choose between a bond with face value Rs.1000 and coupon rate of 8% p.a. paid annually that matures in 5 years and a perpetuity with an annual cash flow of Rs. 50 , paid semiannually, which one will you choose? (Consider the opportunity cost of fund to be 10%)

2. (a) If you are offered Rs 200,000 in your hands today or Rs 80,000 in your hands today and payment of Rs 10,000 at the end of each quarter for the next four years , which would you choose assuming that money could be invested @ 8% compounded quarterly?

(b) Explain how the repo & reverse repo market are utilized by the RBI to stabilize the price level.

(c) BADSHA Co. had additions to retained earnings for the year just ended of RS.275, 000. The firm paid out RS.150, 000 in cash dividends, and it has ending total share capital of Rs.6 million. The firm does not have any preference shares. If Badsha currently has 125,000 shares of common stock outstanding, what are earnings per share? Book value per share? If the stock currently sells for Rs.195 pershare, what are the market-to-book ratio&the price-earnings ratio?

2+4+4

3. a. Explain the sources of funds in the following situations:

- i. A bank needs overnight fund to meet CRR requirements
- ii. A bank needs short term funds
- iii. A firm belonging to the SME sector needs long term funds
- iv. An export-import firm needs a loan
- v. A large firm needs short term funds.

b. Explain clearly how a commercial bills market works. 5+5

4. a. What effects will the following changes have on current ratio and quick ratio? Assume the net working capital is positive.

- i. Inventory is purchased.

[Turn over

ii. A supplier is paid

iii. A short term bank loan is repaid

iv. The firm buys new machineries.

v. The firm makes some investments in short term mutual funds

b. The Moby Computer Corporation is trying to choose between the following two mutually exclusive projects:

Year	Cash flow I (Rs)	Cash flow II (Rs)
0	-20,000	-3,000
1	10,000	2,500
2	10,000	2,500
3	10,000	2,500

i. If the required return is 9 percent and Moby Computer applies the profitability Index decision rule, which project should the firm accept?

ii. If the company applies the NPV decision rule, which project should it take?

iii. Explain why your answers in (a) and (b) are different 5+5(2+1+2)