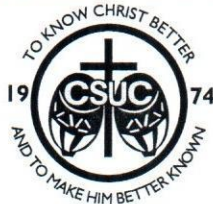


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**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA**

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

SPECIAL SUPPLEMENTARY EXAMS 2018/2019 ACADEMIC YEAR

LEVEL 300

CSBF 353: FINANCIAL MARKETS

AUGUST, 2019

70 MARKS

TIME ALLOWED: 2 HRS 30 MIN.

GENERAL INSTRUCTIONS TO CANDIDATES:

- Answer **three** questions in all:
- Answer question one from Section A and **two** questions from Section B.
- Write your index number on top of the question paper and every page of the answer booklet used.

Examiner: Joyce Ama Quartey

Section A (30 marks)

Question 1

a. Distinguish between the following Markets:

- i. Primary and Secondary Markets **8 marks**
- ii. Money and Capital Markets **8 marks**
- iii. Debt and Equity Markets **5 marks**

b. Boatemaa Company is expected to pay a GH¢0.50 per share dividend at the end of the year. (i.e. $D_1 = \text{GH¢}0.50$). The dividend is expected to grow at a constant rate of 6 percent a year. The required rate of return on the stock r_s , is 12 percent.

- i. What is the value per share of the company's stock? **3 marks**
- ii. What will be the dividend for year 5 **3 marks**
- iii. Calculate the share price for year 4. **3 marks**

Section B

Answer any two questions. (20 marks for each question)

Question 2

A stock market is said to be efficient when it assumes certain features.

- a. Define efficient capital market? **4 marks**
- b. Briefly explain the three forms of an efficient market. **10 marks**
- b. What are the implications for a company and its managers? **6 marks**

Question 3

- a. i. What is the Capital Asset Pricing Model (CAPM). **2 marks**

b. Bright Foster is a holding company with four main subsidiaries. The percentage of its business coming from each of the subsidiaries and their respective betas, are given below:

Subsidiary	Percentage of Business	Beta
Electric Utility	55%	0.60
Cable company	20	0.90
Real Estate	15	1.20
Transport company	10	1.50

- i. What is the holding company's beta? **5 marks**
- ii. Assume that the risk-free rate is 6 percent and the market risk premium is 5 percent. What is the holding company's required rate of returns? **4 marks**
- iii. Sanford is considering a change in its strategic focus: it will reduce its reliance on the electric utility subsidiary, so the percentage of its business from this subsidiary will be 45 percent. At the same time, Sanford will increase its reliance on the transport company, so the percentage of its business from that subsidiary will rise to 20 percent. What will be the Bright Foster is considering a change in its strategic focus: it will reduce its reliance on the water utility subsidiary, so the percentage of its business from this subsidiary will be 45 percent.

Index Number.....Signature.....Date.....

At the same time, Bright Foster will increase its reliance on the consultancy services, so the percentage of its business from that subsidiary will rise to 20 percent. What will be the required rate of return if they adopt these change shareholder's required rate of return if they adopt these changes? **9 marks**

Question 4

a. Suppose the Government of Ghana sold an issue of bonds with a 15-year maturity, a \$1,000 par value, at 10 percent coupon rate, with annual interest payments. At what price will the bond sell?

12 marks

b. Interest rates play an important role in the debt market. Examine four economic factors that influence interest rate levels. **8 marks**

Question 5

a. Explain two characteristics of a well-run stock exchange. **5 marks**

b. Examine five benefits associated with the floating of shares by companies. **15 marks**