ST MARY’S UNIVERSITY

TWICKENHAM, LONDON

BA/BA (ITT)/BSc Degree Examination students registered for

Level **SIX**

Title: **Financial Markets and Institutions**

Code: **MGT6019**

Semester: **One**

Date: **9**th **January, 2020**

Time: **9:30 – 11:30 AM**

TIME ALLOWED: **TWO** HOURS

Section A - Please answer **ALL** questions (40 marks).

Section B - Please answer **TWO** questions (60 marks).

**Section A (40 marks)**

There are 20 multiple-choice questions in Section A. Please circle on this exam paper the answer to each question. Choose one correct answer unless stated otherwise.

**Write your regnum in the space below:**

**Regnum……………………………………………**

1. An insurance premium is best described as:
2. The excess amount that a customer has to pay to the insurance company in the event of a claim.
3. A surcharge on an insurance policy.
4. The amount an insurance company pays out in the event of a claim.
5. An amount charged by an insurance company to insure against a risk.
6. Which one of the following best describes Libor?
7. Libor is a benchmark interest rate set by surveying a panel of top banks in London each day, asking what rate they have to pay to borrow for various loan periods.
8. Libor is used by the Federal Reserve to set interest rates in the US.
9. Libor is the central bank’s base rate.
10. Libor is an interest rate used in foreign exchange transactions.
11. Which one of the following is a true statement about equities?
12. Equities represent a share in the ownership of a company.
13. Limited companies are owned by their directors.
14. Equities means everyone owns an equal share in a company.
15. Individuals own most shares in stock market listed companies.
16. Which of the following is not an essential function of a bank?
17. Taking deposits
18. Enabling people to make payments
19. Trading in bonds for customers
20. Providing loans
21. Which one of the following cities is among the world’s top 20 financial centres?
22. Johannesburg
23. Vancouver
24. Manchester
25. Moscow
26. Zurich
27. Which two of the following are true about fx markets?
28. Forward markets mean that currency will be exchanged at a date in the future at a rate agreed now.
29. Currencies from many countries are exchanged in foreign exchange markets.
30. Spot markets mean that transactions are carried out one month after the deal.
31. Foreign exchange markets are places where importers and exporters exchange goods.
32. Which one of the following is incorrect?
33. Bonds issued by companies usually pay a higher yield to maturity coupon than that on a government bond.
34. When US bonds are auctioned, prospective buyers put bids in and everyone pays the same price.
35. Government bonds around the world are considered to be a risk-free investment when issued by a government with a healthy economy and where government finances are strong with low overall debt levels.
36. The yield on German government bonds is used as the bank interest rate throughout the eurozone.
37. Which one of the following statements is false?
38. The interest rate parity theory insists that there is a strong relationship between rates of interest and rates of exchange.
39. If a country imports more than it exports, it has a current account deficit
40. The Big Mac index compares currencies from different countries in terms of buying a hamburger.
41. Nearly all foreign exchange transactions deal with the import and export of goods.
42. FEER is the acronym for:
43. Funds in Equitable Exchange Rates
44. Fundamental Equilibrium Exchange Rate
45. Financial Exchanges Efficiency Ratio
46. Foreign Exchange Equilibrium Rate
47. The purchasing power parity theory of exchange rate determination is best described by which one of the following definitions?
48. The equalisation of currency value such that one unit of the first currency buys one unit of the second currency.
49. If purchasing power parity is achieved between two countries, neither has a comparative advantage.
50. An exchange rate move so that all citizens of a country have the same purchasing power.
51. Exchange rates will be in equilibrium when their domestic purchasing powers at a specific exchange rate are equivalent.
52. The term ‘batering’ means:
53. Allowing goods to be taken on credit.
54. Exchanging goods for cash.
55. Exchanging goods and service.
56. Selling goods and services.
57. Which one of the following best describes a forward?
58. A forward is a non-binding agreement to make an exchange in the future on terms specified now.
59. Forwards are contracts to make an exchange on a date in the future at a price agreed now.
60. Forwards are traded on exchanges and define a transaction to be carried out in the future with payment made now.
61. A forward contract is an agreement to make an exchange on an agreed date.
62. Which one of the following is not a true statement?
63. Financial institutions always make far better returns when they use mathematical formulae.
64. Mathematical calculations for financial investments are arrived at in a rational way, but do not make allowances for human irrationality.
65. Too many mathematicians influence financial institutions with unnecessarily complicated formulae.
66. Too many financial institutions take little account of the vagaries of human behaviour.
67. Which one of the following was not a cause of the financial crisis of 2008?
68. The increasing complexity and interconnectivity of financial instruments.
69. The bonuses paid to employees of pension funds.
70. Easy availability of mortgages.
71. Mortgages being sold on by their originating organisation and not being kept on its books as an asset/liability.
72. Which one of the following best describes subprime mortgage lending?
73. Lending to people who do not have a bank account.
74. Lending to people to buy houses who are at greater risk of being unable to meet the repayments.
75. A bank lending to someone who is not one of their customers.
76. Lending on overvalued properties.
77. Gilts is the name given to bonds issued by the UK government. Which one of the following descritions is most accurate?
78. Gilts are issued by the Debt Management Office (DMO) with a face value of £100. The price paid for them varies according to the prevailing rates of interest and inflation.
79. Gilts are issued by the DMO, and their value depends on the rate of inflation.
80. The rate of return on a gilt is the same as the coupon, and all holders receive an annual payment.
81. The yield to maturity on a gilt takes into account any capital gains or losses, which are always passed onto the next holder if the gilt is sold
82. Which of the following statements is true?
83. Initial margin and variation margin are payments required in swap agreements.
84. FRAs are future rate arrangements.
85. The over-the-counter market is a highly regulated and controlled market with high liquidity.
86. Arbitrageurs exploit price differences on the same or similar assets.
87. Which one of the following statements is not correct?
88. The financial crisis of 2008 was caused by the Chinese government buying too many US government bonds.
89. Northern Rock took on too many mortgages without sufficient collateral, and were unable to continue financing existing mortgage liabilities.
90. One of the triggers for the sub-prime crisis was the use of low introductory mortgage rates; when they expired, the mortgagees were unable to pay the increased payments.
91. Bear Sterns relied on the repo market to finance its mortgage loans, using mortgage-backed bonds as collateral for loans.
92. In foreign exchange trading, a pip is which amount of the underlying currency unit?
    1. 0.0001
    2. 0.01
    3. 0.00001
    4. 0.001
93. Which one of the following is a correct statement?
    1. Money market instruments are never sold for less than their par value.
    2. Money market instruments pay an amount of interest set by the central bank.
    3. The return from most money market instruments is made on the difference between the purchase price and the selling price.
    4. The yield on a money market instrument is usually the amount of interest coupon paid to the holder.

**Section B (60 marks)**

Please answer **ANY TWO** questions. If a question is made up of two parts (part a and part b), make sure that you answer both parts.

Question 1 (30 marks)

1. Explain the difference between deposit-taking and non-deposit-taking intermediaries. Give two examples of each and expand on what they do in practice. (15 marks).
2. Why does a company’s share price matter in a takeover battle? If you were the financial director of a predator firm, what would you want to happen to your firm’s share price? (15 marks).

Question 2 (30 marks)

In 1970, £1 exchanged for over 8 deutschmarks (DMs). At the time of the formation of the Euro in 1999, the exchange rate was £1 = DM2.78. Why do you think this might have been the case? Did this weakening of sterling against the DM mean that, in 1999, British goods were very much more competitive with German goods than they had been in 1972? If not, why not? (30 marks)

Question 3 (30 marks)

1. Explain how an increase in the rate of inflation might affect (a) real interest rates and (b) nominal interest rates. (15 marks)
2. Why are some people capital risk averse and others income risk averse? What are some of the factors that explain the difference? (15 marks)

Question 4 (30 marks)

Describe how the 2007/8 financial crisis unfolded. In your view, what were the primary reasons for it? Could it have been avoided? What went wrong? Could it happen again? (30 marks)

**END OF EXAMINATION**