



“Investing in Africa’s future”

COLLEGE OF BUSINESS PEACE LEADERSHIP GOVERNANCE

MEC205: MONEY AND BANKING

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2022

LECTURER: MR. G. MANDEWO

DURATION: 3 HOURS

INSTRUCTIONS

Answer **Question number 1**. Answer **ANY three questions**. Total possible mark is **100**

Start **each** question on a new page in your answer booklet.

1. (a) What are the two parts of a stock’s expected total return. Assume that MicroDrive just paid a dividend of \$1.15. The dividend yield for this stock is 5.4% and its investors expect the dividend to grow at a constant rate of 8% in the future. Calculate D_1 , D_2 , D_3 and the value the MicroDrive share
The marks allocated to **each** question are shown at the end of the question.

Show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

paid \$1.15. The dividend yield for this stock is 5.4% and its investors expect the dividend to grow at a constant rate of 8% in the future. Calculate D_1 , D_2 , D_3 and the value the MicroDrive share **(6 marks)**

- (b) Now suppose MicroDrive dividends are expected to grow at a rate of 30% for the first three years after which the growth rate is expected to fall to 8%.

- i. Calculate MicroDrive's expected dividends in Year 1, Year 2, Year 3 and Year 4. **[4 Marks]**
 - i. Calculate the value of the stock today, P_0 **[3 Marks]**
 - ii. Calculate the expected dividend yield (D_1/P_0) and the capital gains yield expected in Year 1 **[4 Marks]**
- (b) What the 4 basic types of credit instruments? What kind of cash flows is attributable to each instrument? **(4 marks)**
- (c) Briefly explain the main functions of money. What the main functions of financial markets **(4 marks)**
2. (a) Describe various types of term loans and discuss the costs and benefits of each.
 - (a) Discuss the nature and the content of loan agreements, including protective (restrictive) covenants. **[15 Marks]**
 - (b) Discuss the sources and types of equipment financing **[5 Marks]**
 - (c) Explain how the retirement (repayment) of bonds and preferred stock may be accomplished in a number of different ways. **[5 Marks]**
3. (a) Explain the differences between various types of long-term securities in terms of claims on income and assets, maturities, security holders' rights, and the tax treatment of income from the securities. **[15 Marks]**
 - (b) Discuss the advantages and disadvantages of issuing/buying the three different types of long-term securities from the perspective of both the issuer and investor **[10 Marks]**
4. (a) Describe the features of three common types of options that may be used by firms in their financing— the convertible security, the exchangeable bond, and the warrant. **[9 Marks]**
 - (b) Understand why these securities with option features may be attractive for a firm's long-term financing needs. **[8 Marks]**
 - (c) Explain the different terms used to express value for convertible securities - conversion value, market value, and straight-bond value **[8 Marks]**.
5. (a) With the aid of a diagram showing the flow of funds through the financial system can you compare and contrast direct and indirect finance? **[10 Marks]**
 - (b) Discuss in detail how financial intermediaries deal with the information asymmetry problem? **[10 Marks]**
 - (c) How does regulation increase information to investors? **[5 Marks]**
6. (a) What is a cryptocurrency and how did it emerge as a side product of digital cash? **[5 Marks]**

- (b) With reference to a specific cryptocurrency can you discuss its revolutionary transactional and monetary properties? **[20 Marks]**

END OF EXAM