EXAM: FINANCIAL MARKETS AND INSTITUTIONS (JAN-FEB23-1)

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SOLUTIONS

A) MULTIPLE CHOICE QUESTIONS (1 point each, no penalties, at least 5 to pass)

1 In a fully amortised loan where the share of principle is fixed, the share of interests is…
  a decreasing

2 The recent evolution of regulation and supervision of financial intermediaries shifted towards:
  d more prudential and transparency requirements

3 In the majority of countries the largest issuer of bonds is represented by…
  a governments

4 The initial public offering (IPO) is the procedure by which:
  b the stocks of an existing firm become public for the first time

5 Compared to open-end mutual funds, closed-end ones…
  c attract fewer volumes

6 The most important portion of the economic performance of a commercial bank is represented by:
  b its interest margin

7 When a central bank provides liquidity through open market transactions, in its balance sheet…
  a bonds and reserves increase

8 After the USD, the largest market share in the market for foreign currencies is held by…
  c the EUR and the JPY

9 If a floating mortage provides a cap, this means that its interests…
  a can not be higher than the cap

10 I sold a stock option, strike price 100 and premium of 5. If at the exercise date the price of the stock is 120, I gain:
  a if it is a put option, 5

B) OPEN QUESTION (10 points, don't exceed the space below)

Describe the main factors influencing exchange rates in the short term and the expected impact on them.

The two main factos are domestic interest rates (positive), relative to foreign ones (negative), and the expected.
future exchange rate (positive). The latter is mainly due to: domestic prices (negative) relative to foreign ones
(positive), tariffs and quotas (positive), import (negative) and export (positive), productivity (positive)

C) EXERCISE (10 points, briefly comment your calculations)

A bond portfolio is composed by bond A for 40% (a zero-coupon due in 12 months), bond B for 35% (a zero-coupon due in 6 months), and bond C for the rest (a coupon bond with a duration of 4). What is the duration of the portfolio? How much does the portfolio change in value if interests increase from 5% to 6%?

DUR of PTF = 40% x 1 + 35% x 0,5 + 25% * 4 = 1,58

Ch. Price = - 1,58 x 1% / (1+5%) = -1,5%