EXAM: FINANCIAL MARKETS AND INSTITUTIONS (JUN/JUL25-1) - 90 minutes | 1B

SOLUTIONS

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

1 Which of the following is a money market instrument?
(b) treasuries

2 Which of the following is not a function of the financial system?
(a) limit excessive debt

3 What is the main measure of liquidity of a traded stock?
(c) bid-ask spread

4 Which of the following is a typical risk of a bond?
(d) all of the above

5 When I buy a bond issued 5 years ago, I usually do it…
(b) in the secondary market

6 Together with dividends and voting rights, what does often also own a stockholder?
(a) the right to buy stocks before others if new capital is issued

7 Which of the following does not directly impact exchange rates?
(d) relative tax burden

8 A leveraged mutual fund is characterized by…
(a) debt

9 Reinsurance is…
(c) insurance purchased by insurers

10 Factoring with recourse means that, in case of debtor's default…
(b) the ceding firm suffers the loss

B) OPEN QUESTION (10 points, check your handwriting and don't exceed the space below)

Briefly describe what open market transaction are, and how they affect market yields

The main tool for monetary policy of central banks, they essentially mean the purchase or selling of securities, mostly government bonds. These operations can have different features (duration, size, target security, etc.), but whenever the central bank buys (sells), it increases (decreases) liquidity in the market, trusting that normally the higher (lower) the liquidity, the lower (higher) are interest rates. However, when interest rates are particularly low (f.i. ZLB) or high (f.i. due to credit risk concerns), these operations can be less effective.

C) EXERCISE (10 points, briefly explain your calculations and don't exceed the space below)

A mutual fund with 1,000 shares issued holds only 2 assets: stock A (price: 100; quantity: 100) and stock B (price: 20; quantity: 250). Today, after receiveing new inflows, it purchases 30 units of stock C, at 35 each, while the stock A records a +4% and stock B a -3%. What is the change in NAV at the end of today compared to yesterday?

NAV yesterday: (100 x 100 + 20 x 250)/1,000 = 15
Stock A today: 100 x 1,04 = 104
Stock B today: 20 x 0.97 = 19,4
Shares today: 1,000 + 35x30/15=1070
NAV today: (100x104+19,4x250+35x30)/1,070 = 15,23
NAV change: 15,23/15-1=+1,56%