Capital Markets

The sample questions are related to the AIBP Specialization course "***Capital Markets***". The students are advised to thoroughly read the exam guidelines and the course syllabus for this course before start studying for the paper. The questions are shared to give an idea to the student about the paper format and types of questions. For further information visit the IBP website www.ibp.org.pk

Multiple Choice Questions

Each MCQ carry one mark.

Q1. The term structure of the bond is the relationship between the

A. Interest rate and bond's maturity period

B. Interest rate of the bond and market rate of interest

C. Interest rate and the price of bond

D. Yield and time taken to mature (Answer)

Q2. The instrument that is a bank's promise to pay for goods stored overseas is called a

A. Letter of credit (Answer)
B. Bankers' acceptance
C. Eurocurrency loan
D. Eurobond

Q3. The primary reason that individuals and firms choose to borrow long-term is to reduce the risk that interest rates will

A. Rise before they pay off their debt (Answer)

B. Fall before they pay off their debt

C. Become more volatile before they pay off their debt

D. Become more stable before they pay off their debt

Constructed Response Question

Each CRQ carry five marks.

Question:

A) Explain money market securities? **(2 marks)**
B) Define the following **(3 marks)**

1. Eurodollar deposit
2. Treasury bills
3. Certificate of deposits

Answer:

Part-A

Money market securities are very short-term debt obligations. They are usually highly marketable and have relatively low credit risk. Their low maturities and low credit risk ensure minimal capital gains or losses. These securities are traded in large denominations, but they may be purchased indirectly through money market funds.

Part-B

1. **Eurodollar deposit:**
   Deposits made in U.S. dollars at a bank or bank branch located outside the United States.

2. **Treasury bills:**
   Short-term debt obligations of a national government that are issued to mature in three to twelve months.

3. **Certificate of deposit:**
   Time deposit, commonly offered to consumers by banks, thrift institutions, and credit union.

Extended Response Question

Each ERQ carry ten marks.

Question:

A) Highlight any TWO differences between a forward and a futures contract? **(4 Marks)**

B) Explain any TWO advantages of investing in the following: **(6 Marks)**

i. Unit investment trusts.
ii. Open-ended mutual funds.
iii. Individual stocks and bonds that you chose for yourself.

Answer:
Part-A

1. A forward market is over the counter and between two parties, suffers from counterparty risk but can be specially tailored to the clients' needs.
2. A futures market is on an exchange, is standardized, and has no counterparty risk. It cannot be tailored to clients' needs, but, since it is standardized, it offers better price discovery.

Part-B

(Any 2 advantages below):
i) Unit Investment Trust:

- Diversification from large scale investing.
- Lower transaction costs associated with large-scale trading.
- Low management fee.
- Predictable portfolio composition.
- Guaranteed low portfolio turnover rate.

ii) Open-ended mutual funds

- Diversification from large scale investing.
- Lower transaction costs associated with large-scale trading.
- Professional management that may be able to take advantage of buy or sell opportunities as they arise.
- Record keeping.

iii) Individual stocks and bonds that you chose for yourself

- No management fee.
- Realization of capital gains or losses can be coordinated with investors' personal tax situations.
- Portfolio can be designed to investors' specific profile.