

SECTION A: QUESTIONS [Please Answer ANY Three: 3X6 = 18 MARKS]

Question 1

(a) Explain through diagram, how equilibrium interest on loanable funds can be determined? Also, mention how surplus and shortage of funds can happen. (3 marks)

(b) Suppose, currently we are facing 9.32% inflation rate. It is expected that inflation will increase in the near future. Discuss the effect of it on the market interest rate. (3 marks)

Question 2

XYZ Corp., wants to raise capital by issuing new shares to the public for the first time. XYZ Corp. hires an investment bank to help with the process. The investment bank works with XYZ Corp. to determine the number of shares to be issued and the price per share. XYZ Corp. then sells 1 million new shares at \$20 per share in the IPO. These shares are purchased by investors, you are one of the investors here and the money raised goes directly to XYZ Corp. to fund its expansion plans, product development, or pay down debt. After 1 year, your friend “T” has bought some shares of the company from you.

(a) Identify the types of markets here and write down the differences between the markets. (3 marks)

(b) What do you understand by financial market? Discuss the participants in a financial market. (3 marks)

Question 3

(a) You have a fascination for TOYOTA Car and YOU plan to buy a new one at BDT 7000,000. But. currently, you have barely BDT 250,000. How long you may need to wait to get sufficient fund to buy the car when the market rate of interest is 10%. (2 marks)

- (b)** How much a deposit of BDT 200,000 grows at the end of 20 years if the nominal rate of interest is 12% p.a. and money is quarterly compounded? Compare this with the amount you get with monthly compounding. (2 marks)
- (c)** Nominal rate of interest is 8% p.a. Find the effective annual rate of interest when money is compounded quarterly. (2 marks)

Question 4

- (a)** Bangladesh Bank (Central Bank) sells government bonds of worth BDT 2,000,000.00, to the public. What impact it will carry on money supply? Explain. (1.5 marks)
- (b)** What is a discount rate? How does Bangladesh Bank apply this policy to expand money supply? Explain. Under what situation, commercial banks may think that Bangladesh bank, using discount rate, is virtually punishing them. Explain. (2.5 marks)
- (c)** What is a Reserve requirement as a monetary policy tool? By using this tool, how does Bangladesh Bank help commercial banks to generate more money supply in the financial system? (2 marks)

SECTION B: QUESTIONS [Please Answer ANY Three: 3X6 MARKS]

Question 1

- (a)** Clearly differentiate between money market and capital market securities. (2 marks)
- (b)** Financial systems operate at national, global, and firm-specific levels. Define financial market by mentioning the major components in the market. (2 marks)
- (c)** Suppose you have \$12,000 with you today which you want to deposit immediately in your local bank which will provide you with 14 percent interest compounded annually. You plan to keep your money with the bank until the value of your deposit is tripled. How many years will you have to wait to fulfil your plan? (2 marks)

Question 2

(a) What is Loanable Funds Theory? Why is government demand for loanable funds considered interest-inelastic? Briefly explain. (2 marks)

(b) Explain distinctly the role of Households, Businesses, Government and Foreign sectors playing their respective role in the supply side of loanable funds theory. (2 marks)

[Please turn over]

(c) Also, explain distinctly how economic growth affects the loanable fund demand and supply? (2 marks)

Question 3

(a) Tina is saving for her daughter's wedding. Her daughter is currently 10 years old and Tina estimates the wedding will cost BDT 500,000 when her daughter turns 25, which is 15 years from now. How much money does Tina need to set aside today if the annual interest rate is 6%, compounded annually? (2 marks)

(b) What is the effective annual return on a government treasury bond that is paying you coupon payments semi-annually of 8% per annum? (1 marks)

(c) You have been given the following investment choices by a savings institute: (1) Invest \$50,000 today at 12% annual interest rate compounded quarterly or. (2) Invest \$12000 at the beginning of each year for the next 5 years, with the first deposit made today, with 10% annual interest rate compounded yearly. Which option gives you the highest proceed at the end of the 5 years? (3 marks)

Question 4

(a) If the Central Bank of Bangladesh purchases government securities worth BDT 1,000,000.00, what impact will this have on the money supply? What is this type of operation called? (2 marks)

(b) Other than purchasing or selling government securities, what are two additional monetary tools the central bank can use to control the money supply? Briefly explain their mechanisms. (2 marks)

(c) Please explain the impact of contractionary monetary policy on interest rate. (2 marks)

SECTION A: QUESTIONS [Please Answer ANY Three: 3X6 = 18 MARKS]

Question 1

Sarah has recently started her first full-time job and has chosen to save a portion of her income each month. She deposits money into a savings account and also invests in a mutual fund.

At the same time, David is an entrepreneur who needs funds to grow his tech startup. He applies for a loan from the bank and also issues shares to raise additional capital from investors.

- a) Identify and explain the role of Sarah and David in the financial system. (2 marks)
- b) Describe the methods through which funds can be transferred from Sarah to David. (2 marks)
- c) How does Bangladesh bank conduct its open market operations for a larger economic expansion, increased production and employment in the economy. Explain. (2 marks)

Question 2

- a) What is interest rate? What is the relationship between the interest rate and the demand for loanable fund? (2 marks)
- b) Please differentiate between the perfect and efficient market. (2 mark)
- c) Mr. Kabir has invested TK5,000 today in a mutual fund that pays 6 percent interest per year. How much will be in his account after 1 year if the interest is compounded monthly? (2 marks)

Question 3

- a) Given the philosophy of establishing Bangladesh Bank, describe the functions of Bangladesh Bank in the financial sector of the economy. (2 marks)

b) Ms. Samiha deposited TK2,500 in a savings account that pays 18 percent interest per year. Calculate the effective annual rate (EAR) if the interest is compounded quarterly. (2 marks)

c) What are the factors that affect interest rate? Explain in brief. (2 marks)

Question 4

a) Ms. Diana deposited TK1,500 into BRAC Bank today. The bank will pay her TK105 at the end of each year forever. What is the rate of return earned on this investment? (2 marks)

b) As a part of its responsibility, how does Bangladesh bank utilize the reserve requirement ratio of commercial banks, as a monetary policy tool, to generate monetary expansion or increase money supply in the economy. Explain. (2 marks)

c) What is equilibrium interest rate? Draw the graph of equilibrium interest rate and explain. (2 marks)