



INTERNATIONAL
BUSINESS SCHOOL

Fin Markets and Securities

Important terms

Discuss shortly the most important differences between...

- a) *Active and passive management,*
- b) *Market Order and Limit Order,*
- c) *ROE and P/E,*
- d) *Stop loss sell and stop loss buy order,*
- e) *Zero-coupon bond and convertible bonds,*
- f) *Payout ratio and plowback ratio,*
- g) *Primary and Secondary Market,*
- h) *Margin trading and short sale*
- i) *Initial Public Offering and Private Placement*
- j) *Money Market vs. Equity market*
- k) *Risk premium (excess return) vs. risk free rate*
- l) *Fixed and floating rate bond*
- m) *Treasury bill and treasury note*
- n) *Ordinary and preferred shares*
- o) *Margin account and margin call*
- p) *Government and commercial paper,*
- q) *Yield to Maturity Return and Holding-Period Return*

Calculations

1. Suppose your expectation regarding the stock market are as follows:

Scenarios	Probability	HPR
Optimistic	0.25	50%
Realistic	0.5	16%
Pessimistic	0.25	-18%

Compute the mean (Expected return) and standard deviation of the HPR on stocks.

2. Consider the following limit-order book of a specialist.

Limit-Bid orders		Limit-Sell orders	
Price	shares	price	shares
55.75	100	56.50	100
55.50	300	56.75	200
55.25	500	57.25	300
55.00	600	57.50	100
54.50	600		

- If a market-buy order for 200 shares comes in, at what price will it be filled?
 - At what price would the next market-buy order for 100 shares be filled?
 - If you were the specialist, would you desire to increase or decrease your inventory of this stock?
3. A bond pays a semiannual coupon, and the last coupon was paid 90 days ago. If the annual coupon payment is \$10 and you have semi annual coupon payment, what is the accrued interest? (Assume 182 days in the 6-month period.) If the bond has a net price of 995 what will be the invoice price?
4. You purchased a share of stock for \$29. One year later you received \$6.25 as dividend and sold the share for \$27. What was the holding-period return?

Essay

- **Main financial market asset classes and example for instruments/products**
- **IPO process and IPO issue price valuation challenges**
- **Order types and its purpose**
- **Equity evaluation methods**
- **Bond valuation, net price, accrued interest, invoice price**
- **Financial Ratios**
- **Composition of ROE**
- **Duration and its importance**
- **Connection of Risk and return**