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FACULTY OF SOCIAL AND MANAGEMENT SCIENCES
DEPARTMENT OF ECONOMICS
2015/2016 HARMATTAN SEMESTER EXAMINATION

COURSE CODE/TITLE: ECO 203 / INTRODUCTION TO FINANCE

INSTRUCTION: ATTEMPT ALL QUESTIONS IN SECTION A AND ONE QUESTION IN SECTION B

TIME ALLOWED: 2 HOURS.

SECTION A

1. Fill the gaps in the following:
 - i. The three branches of decision in business finance are _____, _____ and _____.
 - ii. In line with the "matching" concept, short-term and long-term projects must be financed by _____ and _____ respectively.
 - iii. Two of the sources of short-term funds in the money market include _____ and _____.
 - iv. Off-balance-sheet (OBS) financing include _____ and _____.
 - v. Internal equity can be obtained from _____ and _____.
 - vi. New issues and existing issues are traded in _____ and _____ respectively.
 - vii. Modigliani and Miller are associated with the _____, while Walter and Gordon are associated with the _____ theory of dividend distribution respectively.
 - viii. The financial production process converts _____ to _____.
 - ix. The three legal requirements for the distribution of dividends are _____, _____ and _____.
2.
 - a) Derive an expression for the future value of annuities in advance.
 - b) Use the expression in (a) to obtain the future value of N10,000 deposit observed at the beginning of each year, over 3 years if interest rate on the deposit is 10%.
3. Suppose
 - the company income tax was 40%
 - the market value of ordinary shares was N2

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- the last dividend paid was 25 kobo
- the growth rate of dividend was 5%
- the market value of bond was 105.

Use the above information to calculate the weighted average cost capital for Bill Gates plc, where its capital structure is as follows:

	<u>N' million</u>
Ordinary shares @ 50 kobo	500
Retained earnings	100
Bond	300
Term loan @ 10%	100

SECTION B

4. Highlight the functional differences between the apex bank and the Security Exchange Commission in Nigerian financial system.
5. Describe the process of financial intermediation.