

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

CORPORATE INVESTMENT BANKING (BS 421)

DURATION: 3 HOURS

 MAR 2023

INSTRUCTIONS TO CANDIDATES

1. Answer questions One and any other three.
 2. No cell phones are allowed in the examination room.
 3. Use of non-programmable silent calculators may be allowed.
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QUESTION ONE (Compulsory)

- a) Suppose that zero-beta portfolios exhibits return that are, on average, greater than the rate on T-bills. In relation to this, establish the validity of the CAPM (6)
- b) Suppose you observed that high-level managers make superior returns on investments in their company's stock.
 - i) Would this be a violation of weak-form market efficiency? Would it be a violation of strong-form market efficiency? Explain. (6)
 - ii) If the weak form of the Efficient Market Hypothesis (EMH) is valid, must the strong form also hold? Conversely, does strong-form efficiency imply weak-form efficiency? Fully elaborate. (6)
- c) Discuss the various risks associated with loan securitisation. (7)

[25 Marks]

QUESTION TWO

- a) Suppose you invested your funds in a certain value cap and you obtain the following returns as depicted in Table 1 below.

Table 1

Period		Amount (\$)
Week 1	Beginning balance	100 000 000.00
Week 1	Ending balance	120 000 000.00
Week 2	Ending balance	140 000 000.00

The prices of commodities rose by an average of 10% in each of the period under review

Required:

- i) Calculate The Dollar Weighted Returns for the respective weeks. (4)
- ii) Use the Chain Linking of Return principle to show how the value cap performed over the two week period. (6)

- b) Outline the importance of investment restrictions on the operations of a financial institution. (15)
- [25 Marks]**

QUESTION THREE

- a) Discuss the relevance of the derivatives market to a modern financial system (10)
- b) XYZ Ltd shares are currently trading at 28cents. Their book value is 20cents. The variance of the share price is 900%. The Treasury bill rate is 6%, continually compounded.

Required:

Compute the value of the call option of XYZ expiring in 9 months using the Black-Scholes Option Pricing Model. Ignore the issues of dividends. (15)

[25 Marks]

QUESTION FOUR

Discuss the various issues that should be covered in crafting a comprehensive External Credit Rating Framework for use in the Zimbabwean financial market.

[25 Marks]

QUESTION FIVE

- a) Explain the major contents of a credit policy manual of a banking institution. (10)
- b) Briefly describe the various passive portfolio management strategies that can be used in bond management. (15)
- [25 Marks]**

QUESTION SIX

“Chaos theory is based on the study of natural systems such as weather patterns and river systems. Observations of these systems often give a chaotic appearance. They seem to lurch wildly from one extreme to another. Chaos theorists suggest that apparently random, unpredictable patterns are governed by sets of complex sub-systems which react interdependently” (Pike and Neale, 2002).

Required:

With the aid of relevant models, mathematical proofs and illustrative diagrams, discuss critically the relevance of Chaos Theory against the backdrop of the Efficient Market Hypothesis (EMH), which asserts that stock prices on a stock exchange market follow a random walk and, therefore, are essentially unpredictable.

[25 Marks]

END OF PAPER