



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS HONOURS	
QUALIFICATION CODE: 08BECH	LEVEL: 8
COURSE CODE: FEO810S	COURSE NAME: FINANCIAL ECONOMICS
SESSION: JULY 2024	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Ms Kasnath Kavezeri
MODERATOR:	Dr Reinhold Kamati

INSTRUCTIONS
1. Answer ALL the questions. 2. Write clearly and neatly. 3. Number the answers clearly.

PERMISSIBLE MATERIALS

1. Pens/pencils
2. Calculator
3. Ruler

THIS QUESTION PAPER CONSISTS OF 4 PAGES (including this front page)

QUESTION 1**[25 Marks]**

1. You invest 50% of your money in security **A** with a beta of 1.6 and the rest of your money in security **B** with a beta of 0.7. Calculate the beta of the resulting portfolio. (3)
2. Security **Z** has an expected rate of return of 0.11. It has a beta of 1.5. The risk-free rate is 0.05 and the market expected rate of return is 0.09. According to the Capital Asset Pricing Model, is this security priced fairly, underpriced, or overpriced? Show your calculations to justify your answer. (3)
3. Compute the price of a share of stock that pays a N\$1 per year dividend and that you expect to be able to sell in one year for N\$20, assuming you require a 15% return. (2)
4. Assuming that the rational expectations theory is the correct theory of the term structure, calculate the interest rates in the term structures for maturities of one to five years, and plot the resulting yield curves for the following series of one-year interest rates over the next five years:
 - a) 5%, 7%, 7%, 7%, 7% (6)
 - b) 5%, 4%, 4%, 4%, 4% (6)
 - c) Briefly discuss the rationale behind the expectations theory (5)

QUESTION 2 [25 Marks]

1. What basic principle of finance can be applied to the valuation of any investment asset? (1)
2. Which regulatory authority in Namibia supervises the business of the following institutions? (4)
 - (a) Medical Aid funds
 - (b) Commercial bank
 - (c) Pension funds
 - (d) Investment companies
3. Differentiate between the primary market and secondary market in the context of financial markets structure. (6)
4. How can the existence of asymmetric information provide a rationale for government regulation of financial markets? (4)
5. Suppose that you are the manager of a bank that has N\$15 million of fixed-rate assets, N\$30 million of rate-sensitive assets, N\$25 million of fixed-rate liabilities, and N\$20 million of rate-sensitive liabilities.
 - a) Conduct a gap analysis for the bank and show what will happen to bank profits if interest rates rise by 5 percentage points. (6)
 - b) What action could you take to reduce the bank's interest risk? (4)

QUESTION 3 [25 Marks]

1. Write short notes on each of the following concepts:
 - (a) Eurobonds (2)
 - (b) Eurocurrencies (2)
 - (c) Mortgages (2)
2. How can the provision of several types of financial services by one firm be both beneficial and problematic? (4)
3. Briefly discuss the implications of behavioral finance. (5)
4. discuss five money market instruments. (10)

QUESTION 4 [25 Marks]

1. How does the free-rider problem aggravate adverse selection and moral hazard problems in financial markets. (10)
2. Explain the process forcing the price of the futures contract into equality with the price of the underlying asset during the delivery period. (15)

TOTAL = 100 MARKS