

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Commerce)**

MONEY AND CAPITAL MARKETS (8526)

CHECKLIST

SEMESTER: AUTUMN, 2013

This packet comprises the following material:

1. Text Book (One)
2. Course Outline
3. Assignment No. 1,2
4. Assignment Forms (2 sets)
5. Schedule for Assignments Submission and Tutorial Meetings

If you find anything missing in this packet, please contact at the address given below:

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WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENT(S) BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**
3. **YOU ARE REQUIRED TO SOLVE ALL QUESTIONS IF YOU ARE UNABLE TO UNDERSTAND ANY QUESTION OF ASSIGNMENT, DO SEEK HELP FROM YOUR CONCERNED TUTOR. BUT KEEP IN MIND THAT TUTORS ARE NOT SUPPOSED TO SOLVE THE ASSIGNMENT QUESTIONS FOR YOU.**

Course: Money and Capital Markets (8526)
Level: M. Com

Semester: Autumn, 2013
Marks: 100
Pass Marks: 50

ASSIGNMENT No. 1
(Units: 1–9)

- Q. 1 Discuss Primary and secondary market for money and capital market securities issued by the Government and Corporate Sector. (20)
- Q. 2 The following data are available for three portfolios and the market for a 5 years period: (20)

Portfolio	Avg. Annual Return (%)	Standard Deviation (%)	Beta
1	14	21	1.15
2	16	24	1.1
3	26	30	1.3
100 index	12	18	1
RF	6		

You are required to:

- i) Rank these portfolios using the Sharpe Measure.
- ii) Rank these portfolios using the Treynor Measure.
- iii) Which of these portfolios outperformed the market?
- iv) Compare the rankings of portfolios 1 and 2. Are there any differences? How can you explain these differences?

- Q. 3 Securities D, E, and F have the following characteristics with respect to expected return, standard deviation, and the correlation between them. **(15)**

Company	E(R)	SD	Correlation		
			D-E	D-F	E-F
D	0.08	0.02	0.4	0.6	
E	0.15	0.16	0.4		0.8
F	0.12	0.08		0.6	0.8

What is the expected return and standard deviation of a portfolio composed of equal investments in each?

- Q. 4 The expected return for the market is 12 percent, with a standard deviation of 20 percent. **(15)**

The expected risk free rate is 8 percent.

You are required to:

- Calculate the slope of the CLM
- From the following information for five portfolios you are required to draw efficient frontier.

Portfolios	Standard Deviations (%)	Expected Returns (%)
A	14	8
B	27	12
C	21	18
D	25	20
E	30	21
F	16	12
G	21	16
H	28	20

- Q. 5 Explain following type risks with reference to investment in corporate debt securities. **(15)**

- Default Risk
- Liquidity Risk
- Re-investment Risk
- Exchange Rate Risk
- Interest Rate Risk

- Q. 6 Differentiate capital market theory from that of portfolio theory; also state their assumption on the basis of which both the theories are valid. **(15)**

GUIDELINES FOR ASSIGNMENT # 1

The student should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

ASSIGNMENT No. 2

(Units: 1–9)

Marks: 100

This assignment is a research-oriented activity. You are required to select any trading/manufacturing/non-trading organization of your interest which supports you in preparing a report of about 1000 words on the topic allotted to you, to be submitted to your teacher for evaluation.

Select one of the following topics according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit): -

TOPICS:

- 0) Role of Financial intermediaries in Financial Markets
- 1) Regulation of the issuance of Securities
- 2) Role of brokers and Dealers in Financial Markets
- 3) Secondary Market Trading Mechanics
- 4) Market Efficiency with reference to Pakistani Stock Market
- 5) How Benefits of Diversification can be achieved
- 6) The term structure of Interest rate
- 7) Government and Corporate Marketable Securities
- 8) Derivative Securities in Pakistan
- 9) Structure of mutual funds in Pakistan

The report should follow the following format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents

5. Introduction to the issue (brief history & significance of issue assigned)
6. Practical study of the organization (with respect to the issue)
7. Data collection methods
8. SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
9. Conclusion (one page brief covering important aspects of your report)
10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

GUIDELINES FOR ASSIGNMENT # 2:

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

WORKSHOPS

The workshop presentations provide students opportunity to express their communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment # 2.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech. Workshop presentation transparencies should only be in typed format.

The transparencies should follow the following format:

- 1) Title page
- 2) An abstract (one page summary of the paper)
- 3) Introduction to the issue (brief history & significance of issue assigned)
- 4) Practical study of the organization (with respect to the issue)
- 5) Data collection methods
- 6) SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
- 7) Conclusion (one page brief covering important aspects of your report)
- 8) Recommendations (specific recommendations relevant to issue assigned)

GUIDELINES FOR PRESENTATION:

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory:	60%
Applicability (practical study of the organization):	40%

Note:

Assignments and Presentation carry 300 Marks:

Assignment 01		100 Marks
Assignment 02	(Submission)	100 Marks
Assignment 02	(Presentation)	100 Marks

**MONEY AND CAPITAL MARKETS (8526)
COURSE OUTLINES**

Unit-1 Introduction to Financial Assets and Markets

- 1.1 Financial Assets
- 1.2 Equity Market
- 1.3 Debt Market
- 1.4 Foreign Exchange Markets
- 1.5 Derivative Markets
- 1.6 Issuers and Investors
- 1.7 Role of Financial Intermediaries
- 1.8 Regulations of Financial Markets

Unit-2 Markets Classification and Trading Mechanics

- 2.1 The Primary Market
- 2.2 Secondary Market
- 2.3 Money Market
- 2.4 Capital Market
- 2.5 Regulation of the Issuance of Securities
- 2.6 Role of brokers and Dealers in Markets
- 2.7 Variations in the Underwriting of Securities
- 2.8 World Capital Markets Integration and Fund Raising Implications
- 2.9 Motivation for Raising Funds outside of the Domestic Market

- 2.10 Function of Secondary Markets
- 2.11 Trading Locations
- 2.12 Market Structures
- 2.13 Secondary Market Trading Mechanic
- 2.14 Market Efficiency
- 2.15 Transaction Costs

Unit-3 Investment Theory

- 3.1 Introduction to Markowitz Portfolio Theory
- 3.2 Expected Return and Risk Calculation
- 3.3 Measuring Portfolio Risk
- 3.4 Diversification
- 3.5 Choosing a Portfolio of Risky Assets
- 3.7. Economic Assumptions
- 3.8. Capital Market Theory**
- 3.9. Introduction to William Sharp Capital Market Theory
- 3.10. The Capital Asset Pricing Model
- 3.11. The Multifactor CAPM
- 3.12. Arbitrage Pricing Theory Model**
- 3.13. Some Principles to Take Away

Unit-4 Economic Theories to Explain Yield with Maturity

- 4.1 Market Segmentation Theory
- 4.2 Liquidity Premium Theory
- 4.3 Pure Expectation Theory
- 4.4 The Structure of Interest Rates
- 4.5 The Yield Curve
- 4.6 Forward Rates
- 4.7 Determinants of the Shape of the Term Structure

Unit-5 Money Market Securities

- Government Securities
- Corporate Securities
- Treasury Bills
- Commercial Paper
- Bankers Acceptances
- Large – Denomination Negotiable CDs
- Repurchase Agreements
- Federal Funds

Unit-6 Foreign Exchange Market

- 6.1 Foreign Exchange Rates
- 6.2 Foreign – Exchange Risk
- 6.3 Spot Market
- 6.4 Cross Rates
- 6.5 Dealers

- 6.6 The European Currency Unit
- 6.7 Currency Forward Contracts
- 6.8 Currency Futures Contracts
- 6.9 Currency Options Contracts
- 6.10 Currency Swaps

Unit-7 Corporate Bond Market

- 7.1. Features of a Corporate Bond Issue
- 7.2. Corporate Bond ratings
- 7.3. Event Risk
- 7.4. High – Yield Corporate Bond Market
- 7.5. Secondary Market
- 7.6. Private Placement Market for corporate Bonds
- 7.7. Risk and Return in the Corporate bond Market
- 7.8. Eurobond Market
- 7.9. Medium – Term Notes
- 7.10. Bank Loan Market
- 7.11. Bankruptcy and Creditor Rights

Unit-8 Performance Evaluation of Mutual Funds

- 8.1. Structure of Mutual Funds
- 8.2. Close end and Open end Mutual Funds
- 8.3. Types of Funds with Different Objectives
- 8.4. Sharp Measure
- 8.5. Treynor Measure
- 8.6. Jenson Differential Measure
- 8.7. Fama Franch Three Factor Model

Unit-9 Equity Market

- 9.1. Structure of the Equity Markets
- 9.2. Stock Market Index
- 9.3. Types of Orders
- 9.4. Types of Accounts
- 9.5. Empirical Evidence on Pricing Efficiency ad Implications for Portfolio Strategies
- 9.6. Preferred Stocks
- 9.7. Listing at Stock Market
- 9.8. Stock Market Indicators

Recommended Books:

- i) Money and Capital Markets by: Peter S. Rose, Milton H. Marquis
- ii) Investments Analysis and Portfolio Management By: Reilly and Brown
- iii) Money and Capital Markets by: Jonathan Doodoo

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