Indian Institute of Technology, Kharagpur

Date______FN/AN Time: 2 hours Full Marks: 30 No of Students: 63
Mid Autumn Semester 2017-18 Deptt: HSS Sub No: HS30097
5-Year Integrated M.Sc in Economics Sub Name: Financial Institutions and Markets

Answer all the questions. All questions carry equal marks.

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1. Suppose an investor bought a 10-year, 10% annual coupon bond at par (face value of Rs.1,000 and paying coupons annually) and then sold it 3.5 years later at a yield of 8%. Determine the full price, clean price, and accrued interest the investor would receive when he sold the bond. Use a 30/360 day count convention.

2. Given a 10–year, 10% coupon bond with semiannual payments, Rs. 1,000 face value, and currently trading at par, calculate the total return for an investor with a 5-year horizon date, given the following interest rate scenarios:
   a. Yields on such bonds stay at 10% on all maturities until the investor sells the bond at her horizon date.
   b. Immediately after the investor buys the bond, yields on such bonds drop to 8% on all maturities and remain there until the investor sells the bond at her horizon date.
   c. Immediately after the investor buys the bond, yields on such bonds increase to 12% on all maturities and remain there until the investor sells the bond at her horizon date.

3. Why the call rates are highly volatile? Give the proper explanation for this.

4. (i) What do you mean by Financial Development and how can you measure it?
   (ii) Provide the different theoretical considerations which explain the impact of financial development on macroeconomic indicators for development.

5. Does efficiency is an indicator of financial development? If yes then explain the different forms of financial market efficiency.

6. Why Govt. Securities Market (GSM) demands considerable importance? What are the different types of instruments available at the disposal of Reserve Bank of India (RBI) to be used in GSM? How are the Govt. securities issued?
