

Student No.....

Student ID.....

EE431 Economics of Financial Markets and Institutions

Problem Set 1: Overview of Financial Market

Please submit at the BE office, 5th floor department of Economics building.

1. The financial market that facilitates the transfer of short-term capital is called ... money market....
2. The corporation that issues financial instruments will receive the fund from selling the instruments in.....primary market.....
3. A bond with 5-year maturity was bought by an investor 2 years ago. Since the investor does not want to hold the bond for its whole life and want to sell it before maturity, he or she has to sell it in..... (primary market, secondary market) secondary market.....
4. Securities like debenture and government bond are deemed,
in holder's point of view, as ... assets.... and,
in issuer's point of view,...debt.. (assets, debts)
5. The holder of ...equity instruments... has a stake in the ownership of the corporation issuing the instruments and carries a voting right for important issues in the corporation.
6. The holder of ...equity instruments... is a residual claimant of a corporation. Namely, the corporation has to make a complete payment due to the holder of ...equity instruments.... ; before making further payment to the holder of ...debt instruments....
7. The holder of ...equity instruments... receives a direct benefit from the improvement in the profit of a corporation.
8. Should the price of a corporation's securities in.....secondary market..... (primary market, secondary market) increase, it is tentative that the corporation will raise a higher amount of capital in...primary market....
9. Stocks are traded in.....capital market..... (money market, capital market)
10. Stocks are traded in.....capital market..... (debt market, equity market)
11. The accumulation of precious assets in various forms such as house, land, gold, bank account, cash and bond to be stores of value is considered as ... wealth.... (money, income, wealth)
12. Income is regarded as ...flow..... (flow, stock) of the products generated for a particular point in time.
13. Are the followings direct or indirect finance? (underline)
 - (a) Taking out a mortgage from a bank to buy a house
(direct finance, indirect finance, none)
 - (b) Borrowing 2,500 Baht from your friend
(direct finance, indirect finance, none)

- (c) Purchasing the new shares issued by MK restaurant group
(direct finance, indirect finance, none)
 - (d) Making a loan to a neighbor
(direct finance, indirect finance, none)
 - (e) Purchasing a government bond from Krugthai Bank
(direct finance, indirect finance, none (if not newly issued))
 - (f) Making a deposit at Bangkok Bank
(direct finance, indirect finance, none)
 - (g) Purchasing units in LTF/RMF
(direct finance, indirect finance, none)
 - (h) Buying AIA life insurance
(direct finance, indirect finance, none)
 - (i) Short selling stocks in SET
(direct finance, indirect finance, none)
14. Are the following statements true or false? Explaining a brief reason to support your answer
- (a) Both debt instruments and equity instruments can be traded as long-term financial instruments in capital market. (True/False) because
True. Reason. Issuers pay debtholders interest and principal and pay equityholders dividends from their income (or from their assets).
 - (b) Both debt instruments and equity instruments can be traded as short-term financial instruments in money market. (True/False) because
False. Reason. Debt instruments can be long-term (with maturity over one-year) or short-term (with maturity less than one-year). Equity instruments are long-term. Their maturity are over one year.
 - (c) Both debt instruments and equity instruments render to the holder a claim on a flow of income and assets of the corporation issuing the instruments. (True/False) because
True. Reason. A corporation can raise funds by issuing debt instruments or equity instruments.
 - (d) Cash flow from debt instruments tends to fluctuate more than cash flow from equity instrument (True/False) because
False. Reason. The returns on bonds are predetermined. The returns on equity depends on the issuer's profit. Therefore, the income from bonds is typically less variable than that from equities.
 - (e) An equity security is legally required to make periodic payments called dividends to the firm's residual claimants. (True/False) because
False. Reason: An equity is a long-term security that promises to make periodic payments called dividends to the firm's residual claimants.

15. Which investment among the followings is not regarded as economic investment?
- (a) Building your own house for living
 - (b) **Buying a common stock in SET**
 - (c) Expanding an office building
 - (d) Change in the inventory
 - (e) Foreign investors' moving their production base from Thailand to China for a lower cost of labor
16. Which of the followings is not the security in money market?
- (a) Treasury bills
 - (b) Post dated check
 - (c) **A share in credit union**
 - (d) Overnight interbank loan
17. Business corporations raise their funds by selling the financial securities in primary market. In your opinion, why the corporations have to pay attention to the price movement of their securities in secondary market?
- “The existence of the secondary market makes their stocks more liquid and the price in the secondary market sets the price that the corporation would receive if they choose to sell more stocks in the primary market.”
- (Note: You may provide other relevant reasons, which are also correct.)