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EE431 (2/2018 Section 046402)

Quiz 1 (100 marks)

PART 1.(36 marks) Complete the sentences by underlining the word in the bracket. Make clear which word you select. There are 9 brackets (4 marks each).

1. The corporation that issues financial instruments will receive the fund from selling the instruments in (primary market, secondary market).
2. 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)
3. Securities like debenture and government bond are deemed,
   in holder's point of view, as (assets, debts) and,
   in issuer's point of view, as (assets, debts).
4. The holder of (debt instruments, 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.
5. The holder of (debt instruments, equity instruments) is a residual claimant of a corporation.
6. The corporation has to make a complete payment due to the holder of (debt instruments, equity instruments); before making further payment to the holder of (debt instruments, equity instruments).
7. The holder of (debt instruments, equity instruments) receives a direct benefit from the improvement in the profit of a corporation.

PART 2. (24 marks) Determine these following statements are a part of Direct financing (D) or Indirect financing (I) or Secondary Market transaction (S). Write D, I or S. There are 6 statements (4 marks each).

1. D.......Purchase the new shares issued by MK group
2. D.......Purchase a newly issued government bond at Krugthai Bank
3. S.......Buy 70 CPN shares at the Stock Exchange of Thailand (SET)
4. I.... Make a deposit at Bangkok Bank
5. D.... Borrow 2,500 Baht from your friend.
6. I..... Take out a mortgage from a bank

PART 3. (40 marks) Complete the sentences by underlining the word in the bracket. Make clear which word you select. There are 8 brackets (5 marks each).

1. Bond investment decisions.
   - An individual investor will apply (the investor's required rate of return, the market's required rate of return) to calculate present value of cashflow received from the bond. Then, the investor will compare the present value of cashflow of the bond with the bond market price.
   - If the present value of cashflow of the bond $>$ the bond market price, an investor will (buy, sell, hold) the bond.
   - If the present value of cashflow of the bond $<$ the bond market price, an investor will (buy, sell, hold) the bond.
2. YTM is the market interest rate. It is the market's required rate of return on a bond. YTM is the discount rate that equates present value of the bond with the bond market price.
   - If the investor's discount rate is $>$ YTM, present value of cash flow is ($<$, $>$, $=$) the market price of the bond.
   - If the investor's discount rate is $<$ YTM, present value of cash flow is ($<$, $>$, $=$) the market price of the bond.
3. Coupon Bond
   - If a coupon bond is sold at premium, YTM is ($>$, $<$, $=$) coupon rate.
   - If a coupon bond is sold at discount, YTM is ($>$, $<$, $=$) coupon rate.
   - If a coupon bond is sold at par, YTM is ($>$, $<$, $=$) coupon rate.

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