IQRA NATIONAL UNIVERSITY

School of Management and Social Sciences

Department of Business Administration

Course Titled: Money and Capital Market

Instructor: Mr. Naveed Azeem Khattak

Student Name & ID : Riaz ul Hassan 11662 (BBA-Hon)

Final Term Examination **Total Marks: 50**

Q.No	Answer
Q#1	**Bonds** are a type of debt and may be termed as IOU (I Owe You) which is effectively a pay promise made by the bond issuer to the bond holder, as per the terms of the Bond Instrument). The bond issuer takes on the debt, and the person that buys the debt, the bondholder, is the one providing funds. Generally speaking, there are certain types of tools are financial securities that can be adopted while participating in the bond market. These securities may vary from country to country. However more generally they are: **1) Corporate Bonds** Corporate Bond is a tool used by companies to raise their funds for various purposes including expanding business opportunities or even emergencies. Maturity period of corporate bonds is at least one year. Corporate bonds are normally transacted over-the-counter (OTC), though some corporate bonds are exchange – traded. **2) Government Bonds** Government bonds are a type of sovereign debt. Government bonds typically have maturities of medium or long time-frames, anywhere from a couple of years, up to several decades. This is in contrast to forms of short-term sovereign debt such as treasury bills (T-bills). Major government bonds have very liquid exchange-traded futures contracts available, meaning that they are an easy type of bond for individuals to trade. **3) Municipal Bonds** Municipal bonds are generally issued by a local government entity or agency, such as states, cities, counties, and even schools and publicly-owned airports. In some countries, the interest accrued on such debt is exempted from govt. tax as incentives for people to invest more in the market. Beside the above mentioned there are other securities like high – yield bonds, foreign bonds and mortgage – backed bonds used in bond market.

Q.No	Answer
Q#2	There are many differences between preferred and common stock. The main difference is that preferred stock usually does not give shareholders voting rights, while common stock does, usually at one vote per share owned. Many investors know quite a bit about common stock little about the preferred variety. Both types of stock represent a piece of ownership in a company, and both are tools investors can use to try to profit from the future successes of the business. Difference in Preferred Stock and Common Stock • The main difference between preferred and common stock is that preferred stock gives no voting rights to shareholders while common stock does. • Preferred shareholders have priority over a company's income, meaning they are paid dividends before common shareholders. • Common stockholders are last in line when it comes to company assets, which means they will be paid out after creditors, bondholders, and preferred shareholders. **<u>Preferred Stock</u>** A main difference from common stock is that preferred stock comes with no voting rights. So, when it comes time for a company to elect a board of directors or vote on any form of corporate policy, preferred shareholders have no voice in the future of the company. In fact, preferred stock functions similarly to bonds since with preferred shares, investors are usually guaranteed a fixed dividend in perpetuity The dividend yield of a preferred stock is calculated as the amount of a dividend divided by the price of the stock. This is often based on the par value before a preferred stock is offered. It's commonly calculated as a percentage of the current market price after it begins trading. This is different from common stock which has variable dividends that are declared by the board of directors and never guaranteed. In fact, many companies do not pay out dividends to common stock at all. Like bonds, preferred shares also have a par value which is affected by interest rates. When interest rates rise, the value of the preferred stock declines, and vice versa. With common stocks, however, the value of shares is regulated by demand and supply of the market participants. In a liquidation, preferred stockholders have a greater claim to a company's assets and earnings. This is true during the company's good times when the company has excess cash and decides to distribute money to investors through dividends. The dividends for this type of stock are usually higher than those issued for common stock. Preferred stock also gets priority over common stock, so if a company misses a dividend payment, it must first pay any arrears to preferred shareholders before paying out common shareholders. Unlike common shares, preferred also have a call ability feature which gives the issuer the right to redeem the shares market after a predetermined time. Investors who buy preferred shares have a real opportunity for these shares to be called back at a redemption rate representing a significant premium over their purchase price.

	Common Stock Common stock represents shares of ownership in a corporation and the type of stock in which most people invest. When people talk about stocks, they are usually referring to common stock. In fact, the great majority of stock is issued is in this form. Common shares represent a claim on profits dividends and confer voting rights. Investors most often get one vote per share-owned to elect board members who oversee the major decisions made by management. Stockholders thus have the ability to exercise control over corporate policy and management issues compared to preferred shareholders. Common stock tends to outperform bonds and preferred shares. It is also the type of stock that provides the biggest potential for long-term gains. If a company does well, the value of a common stock can go up. But keep in mind, if the company does poorly, the stock's value will also go down. When it comes to a company's dividends, the company's board of directors will decide whether or not to pay out a dividend to common stockholders. If a company misses a dividend, the common stockholder gets bumped back for a preferred stockholder, meaning paying the latter is a higher priority for the company. The claim over a company's income and earnings is most important during times of insolvency. Common stockholders are last in line for the company's assets. This means that when the company must liquidate and pay all creditors and bondholders, common stockholders will not receive any money until after the preferred shareholders are paid out.

Q.No	Answer
Q#3	The Federal Open Market Committee (FOMC) consists of the seven members of the Board of Governors and five rotating regional bank presidents. It is primarily responsible for buying and selling federal government bonds in order to conduct monetary policy. The Discount Rate is the interest rate the Federal Reserve Banks charge depository institutions on overnight loans. It is an administered rate, set by the Federal Reserve Banks, rather than a market rate of interest. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. Government securities include treasury bonds, notes, and bills. The Fed buys securities when it wants to increase the flow of money and credit, and sells securities when it wants to reduce the flow. Here's how it works. A higher discount rate implies greater uncertainty, the lower the present value of our future cash flow. Calculating what discount rate to use in your discounted cash flow calculation is no easy choice. It's as much art as it is science.

Q.No	Answer
Q#4	**Money** market is primarily concerned with short-term borrowing, lending, buying and selling with maturity of one year or less. In order to fill out the need in money market the following tools can be adopted. 1) **<u>Treasury Bills</u>** Treasury bills are bonds that mature in one year or less. They are bought at a discount of the par value and, instead of paying a coupon interest, are eventually redeemed at that par value to create a positive yield to maturity. Treasury bills are quoted for purchase and sale in the secondary market on an annualized discount percentage. 2) **<u>Commercial Papers</u>** Commercial paper is an unsecured promissory note with a fixed maturity of rarely more than 270 days. Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations and is backed only by an issuing bank or company promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value and generally carries lower interest repayment rates than bonds due to the shorter maturities of commercial paper. Typically, the longer the maturity on a note, the higher the interest rate the issuing institution pays. Interest rates fluctuate with market conditions but are typically lower than banks' rates. 3) **<u>Banker's Acceptance</u>** Banker's acceptance is an instrument representing a promised future payment by a bank. The payment is accepted and guaranteed by the bank as a time draft to be drawn on a deposit. The draft specifies the amount of funds, the date of the payment (or maturity), and the entity to which the payment is owed. After acceptance, the draft becomes an unconditional liability of the bank. Banker's acceptances are distinguished from ordinary time drafts in that ownership is transferable prior to maturity, allowing them to be traded in the secondary market. 4) **<u>Certificate of Deposit</u>** Certificate of deposit (CD) is a time deposit, a financial product commonly sold by banks, thrift institutions, and credit unions. CDs differ from savings accounts in that the CD has a specific, fixed term (often one, three, or six months, or one to five years) and usually, a fixed interest rate. The bank expects CD to be held until maturity, at which time they can be withdrawn and interest paid.