

Questions should be —  
 WRITTEN IN LEGIBLE HANDWRITING IN BLACK INK.  
 SIGNS, SKETCHES OR FIGURES IF ANY BE DRAWN IN NEAT BLACK INK,  
 so as to avoid mistakes in the printed question papers.

Duration 2 1/2 Hours.

Total Marks assigned to the paper 75

Q. No.

N.B.:

Solution Set.

Marks

Q1A.

True or false :-

Solution :-

- 1) True
- 2) True
- 3) False
- 4) False
- 5) False
- 6) True
- 7) False
- 8) True
- 9) True
- 10) True

Q7A →

Column 'A'

- 1) compounding factor
- 2) fundamental Analysis
- 3) PSU
- 4) CRR
- 5) Referral risk
- 6) AAA Ratings
- 7) MUC
- 8) FIMMDA
- 9) LAF
- 10) Interim term

Column 'B'

- PV. of rupee
- liquidity management
- PSU bond issues
- clearing & settlement
- Qualitative AA feature
- Sovereign bonds
- minimum underwriting Comm.
- 1998
- liquidity Adjustment facility
- 5-12 yrs in length



Q2 A - Definition of Debt market.

"A bond/debt defined as a market for trading fixed income instruments. The issuer of the bond pays the investor interest in return for funding."

Merits:-

- 1) Minimum risk
- 2) Principal amount guaranteed.
- 3) Provide optional platform
- 4) Enhanced liquidity
- 5) Convenience to investor
- 6) Enhanced mobilization
- 7) Greater funding avenues

Q2 B - RBI has taken several initiatives:-

- 1) Secondary market is OTC market
- 2) NSE introduced NEAT & WPM.
- 3) OTCEI - introduced on 16 Jan 2003
- 4) NDS - introduced in Feb 2002
- 5) Launching of NDS-OM platform.
- 6) govt. rate functions as benchmark for all other rates in market
- 7) NDS-OM - anonymous order matching system.

Q2C - " RBI purchases govt. sec. to general public in a bid to increase/decrease the stock of high powered money in the economy".

Features

- 1) Instrument of MP
- 2) More direct method to control credit
- 3) Affects CRR of commercial banks.
- 4) Not flexible.
- 5) Makes bank rate more effective.
- 6) Monetary targets - inflation, interest rates, exchange are used to guide this implementation.

Note: - Working of emos in detail

Q3 A. Features of debt securities -

- 1) Issue date
- 2) Issue price
- 3) Redemption / maturity date
- 4) Redemption price
- 5) Exchangeability
- 6) Face Value
- 7) Coupon rate

Q. No.

Q3 B - Role & functions of PP :- — (7)

- 1) Commit participation.
  - 2) provide underwriting services.
  - 3) offer firm buy/sell/bid/ask quotes.
  - 4) Development of secondary debt market.
- brief explanation of above points

Q3 C Different types of bonds — (8)

- 1) Govt. bonds
- 2) Corporate bonds
- 3) TCBs.
- 4) Junk bonds
- 5) Tax-saving bonds
- 6) Inflation-linked bonds
- 7) Perpetual bonds
- 8) High yield bonds
- 9) Redeemable bonds.
- 10) Secured bonds
- 11) Unsecured —
- 12) convertible bonds.
- 13) ~~Foreign~~ Foreign currency bonds.

Q3 D - RBI guidelines to develop bond markets (5)

- 1) PCE ceiling raised to 50%
- 2) Masala bonds for Tier I, II capital
- 3) Masala bonds for infra funding
- 4) Brokers in repo corporate bonds.
- 5) Direct trade in corp bond for FPIs.
- 6) Retail participation in treasuries.
- 7) Removing 7 day restriction

Q4 A - Function of CRAs (8)

- 1) Provides unbiased opinion
- 2) Provides quality & dependable information
- 3) Provides information at low cost.
- 4) Provides easy to understand information
- 5) Provides basis for investment
- 6) Healthy discipline on corp. borrowers.
- 7) Formation of public policy.

Q4 B - different Types of Interest Rate risk (7)

- 1) Reinvestment risk.
- 2) Call risk
- 3) Default or credit risk
- 4) Inflation risk.

Q. No.

Q5-  
A.Salient Features

(8)

- 1) Commenced auction of central g-sec at market determined rate.
- 2) 91 day treasury bills offered through auction.
- 3) PVP was introduced.
- 4) PFBs were introduced.
- 5) Agreement between govt & RBI to discontinue.
- 6) FII's were permitted.
- 7) Call & put option allowed.
- 8) gsec trading on stock exchanges.
- 9) KTQS trial run.
- 10) Eligibility to participate in repo.

Q5B. Function of CIL

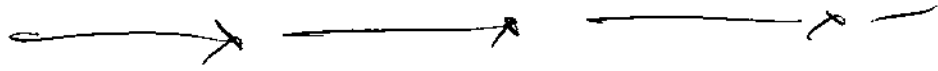
(7)

- 1) Risk management
- 2) Membership dept
- 3) Operations - Fixed Income & Money market.
- 4) Collaterals & Fund mgmt.
- 5) Clearing & NDS operations
- 6) Product development dept.
- 7) Information Technology.
- 8) Research & Surveillance

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Q5 C - Short Notes:- (Any 2)

Briefly explain all the concepts — 5 marks each.





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Sume - Solution

Marks

N.B. :

$$M = 5\%.$$

$$C = 14\%.$$

$$PV = 1000.$$

$$\text{Interest} = 1000 \times 14\% = 140$$

$$PVAF = PV @ 16\%.$$

Year	PV @ 16%
1	0.862
2	0.743
3	0.640
4	0.552
5	0.476
PVAF	<u>3.2742</u>

$$\begin{aligned} PV &= I (PVAF) + PV (DF) \\ &= 140 (3.2742) + 1000 (0.476) \\ &= 458.39 + 476 \\ &= \underline{934.39} \end{aligned}$$

Bond B = New YTM = 11.77%

$$0.1177 = \frac{\frac{200 - PP}{5} + 10}{\frac{200 + PP}{2}}$$

$$0.1177(100 + 0.5PP) = \frac{200 - PP}{10} + 200$$

$$10(11.77 + 0.0589PP) = 400 - PP$$

$$117.7 + 0.589PP = 400 - PP$$

$$1.589PP = 282.3$$

$$\underline{\underline{PP = 178.67 \text{ \pounds}}}$$