

Tribhuvan University

2079

B.B.S. (4 Yrs.) / III Year / MGMT.
(MGT- 226, New Course)
Foundation of Financial Systems

Full Marks: 100
Time: 3 hrs.

Candidates are required to give their answers in their own words as far as practicable.

The figures in the margin indicate full marks.

Group "A"

Brief Answer Questions
Attempt ALL questions.

[10×2=20]

1. What do you mean by indirect process of fund transfer?
2. Write the classification of depository financial institutions in Nepal.
3. What role does the risk management industry play in the economy?
4. Write the meaning of ancillary financial services.
5. Define primary market in Nepal with example.
6. Write about NEPSE float index.
7. ABC fund has assets worth Rs. 2,300,000 and accounts payable Rs. 100,000. There are 200,000 shares outstanding. What is the net asset value?
8. A Treasury bill with 180 days to maturity, a face value of Rs. 10,000 is selling for Rs. 9,800 on bank discount basis. What is annualized yield of T-bill on the bank discount basis?
9. Calculate return on assets if profit margin ratio is 10 percent and assets utilization ratio is 1.8 times.
10. Bank X has gap ratio of 20% and that of Bank Y is 25%. Which bank is more sensitivity to the interest rate change?

(1)

Group "B"

Descriptive Answer Questions

[5×10=50]

Attempt FIVE questions.

11. Explain the major components of financial system of Nepal.
12. Explain the major types of insurance services available in Nepal to manage the risk.
13. A commercial bank has Rs. 300 million in the reserve for loan loss account on its balance sheet and its management has decided that the minimum adequate reserve is Rs. 280 million. Now assume that Rs. 25 million of loans are uncollectible and bank management charges these loans off.
 - a. How much management should increase the accrued expenses item, to replenish the reserve?
 - b. Suppose that bank management charges off Rs. 35 million and recovers Rs. 25 million. What will be the amount of net charge-off?
 - c. What will be the provision for loan losses for the current year if bank maintains the minimum adequate reserve for loan losses assuming that amount of gross charge -off and recovery amount will be as in (b)?

[3+3+4]

14. Consider the following stock price and shares outstanding information:

Balance Sheet of HHC as on December 31, 2019

Stock	Asar 31, 2078		Asar 31, 2079	
	Price	Shares outstanding	Price	Shares outstanding
X	Rs.200	1,000	Rs. 320	1,000
Y	800	2,000	750	2,000
Z	400	2,500	420	2,500

Assume base value of market capitalization is Rs. 1,400,000 and base index is 100.

- a. Compute the value weighted index like NEPSE, index for Asar 31, 2078 and Asar 31, 2079.
 - b. Compute the percentage change in the value of index in Asar 31, 2079 as compared to Asar 31, 2078.
15. New Era Company is proposing a rights offering. Presently there are 150,000 shares outstanding at Rs. 150 each. The company is

[7+3]

(2)

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planning to sell new 60,000 shares through rights offering at a subscription price of Rs. 100 each per share.

- a. How many rights are associated with one of the new shares?
- b. What is the ex-rights price?
- c. What is the value of a right?
- d. Why might a company have a rights offering rather than a general cash offer? [4×2.5]

16. Write short notes on (Any TWO)

- a. Initial public offering
- b. Stock dealer
- c. Credit information bureau of Nepal

Group "C"

Analytical Answer Questions

[2×15=30]

Attempt any TWO questions.

17. Explain the need for regulation of depository financial institution by NRB. Describe the onsite and offsite supervision and supervisory tools. [7+8]
18. It is now January 1, 2023. Inflation was about 4 percent, throughout 2022. The government took action to maintain inflation at this level. However, the economy is in a recovery, and reports indicate that inflation is expected to increase during the next 4 years. Assume that 5 percent will be the expected inflation rate for 2023, 6 percent for 2024, 6.5 percent for 2025, and thereafter inflation rate will stable at 7 percent.
 - a. What is the average expected inflation rate over the next 4 years period 2023-2026?
 - b. What average nominal interest rate, over the 4 years period 2023-2026, would be expected to produce 2.5 percent real risk-free rate of return on 4-year Treasury securities?
 - c. Assume a real -risk-free rate of 2.5 percent and a maturity risk premium which starts at 0.04 percent on 1-year security and

(3)

increases by 0.04 percent each year. Estimate the interest rate in January 2023 on the Treasury securities that mature in 1,2,5, 10 and 20 years?

d. Assume that default risk premium associated with a 5-year corporate security is 1.9 percent. What is the yield on 5-year corporate securities?

e. Describe the general economic condition that could be expected to produce an upward sloping yield curve. [3+2+5+2+3]

19. Nepal Rastra Bank has published summary of BOP for the first eight months for the fiscal year 2021/022. Summary of current account for the first eight months of the fiscal year 2021/022 is as follows:

Summary of Current Account (Rs. in Million)

Particulars	Credit	Debit
Goods and services	220,124.0	1,404,675.7
Goods:	152,114.7	1,269,649.4
Services	68,009.4	135,026.3
Primary income	32,835.9	15,548.4
Secondary income	709,238.5	4,904.9

On the basis of data given above answer to the following questions.

- What is the net of goods and services account during the given period of three fiscal years?
- What is the net of primary income account and secondary income account during the given period of the fiscal year?
- Which accounts have contributed to increase the current account deficit?
- Which accounts have contributed to decrease the current account deficit?
- What is the trade deficit/surplus during the first eight months of given fiscal year?

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