Injibara University

College of Business and Economics

Department of Accounting and Finance (Extension)

Assignment for Second Year AcFn Weekend Students (30%)

Course name: Financial Institutions & Markets

PART I: ESSAY QUESTIONS (20%)

1. How does the financial system facilitate the development of an economy?
2. List and explain the features of financial system
3. List and explain the three major goals of a finical system.
4. What is term financing means? And what is the difference between direct and indirect Financing?
5. Who does the financial system facilitate risk management in an economy?
6. How dose financial system improves liquidity?
7. What is the main difference between depository and non-depository financial institutions?
8. What is the difference between interest rate and returns, and which one is mare
   accurate to measure investment on financial assets?

PART II: MULTIPLE CHOICE QUESTIONS (10%)

1. Which of the following is/are false?

A. For simple loan the simple interest rate equals the yield to maturity.

B. A bond with default risk will always have a positive risk premium.

C. The depression period on the economy of one country indicates a very high

rate of business failure interest rates of different security with the same
maturity.
D. None
2. From the following alternatives select the statements is/are not an economic function
of interest?
A. Regulates the activity of lending and borrowing.
B. It allocates funds between surplus spending units and deficit omits
C. Maintains the balance of investment.
D. None
3. The federal government of Ethiopia guarantees today that it will pay creditors if the
ETC goes bankrupt in the future. What will happen to interest rates on a corporation’s
bonds of ETC because of the government action made?
A. The interest rate will raise
B. The interest rate will fall
C. The action has no any effect.
D. None
4. Which of the following is not true the regarding classical theory of interest rates?
A. Interest rates are the premium for inducing the people to save.
B. The change of supply of money will direct effect price revel
C. The more the demand for saving in the market implies interest rates must
rise to make equilibrium.
D. Rate of interest is not directly, affected by change of supply of money.
5. All are correct except,
A. The fact that two bonds have the same term to maturity does not

mean that
they have the same interest-rate.
B. An increase in the riskiness of alternative financial assets causes the
demand for bonds to rise and a fall in its interest rate.
C. An increased liquidity of alternative financial assets causes the demand
for bonds and its interest rate to fall.
D. Even though a bond has a substantial initial interest rate, its return can turn
out to be negative if interest rates rise.