

MASTER OF ARTS (ECONOMICS)

Term-End Examination

December, 2007

**MECE-004 : FINANCIAL INSTITUTIONS AND
MARKETS**

Time : 3 hours

Maximum Marks : 100

Note : *Attempt questions as per instructions given below.*

SECTION A

Long Answer Questions : *Answer any two questions from this section. 2x20=40*

1. Discuss the services provided by the financial system in a modern economy. Provide a discussion of the main indicators of financial development of an economy.
2. Discuss Markowitz's portfolio theory of asset pricing. Critically examine the Efficient Markets Hypothesis. Does it hold true for India ?
3. Critically examine the Quantity Theory of Money as a theory of demand for money and contrast it with the Keynesian theory of demand for money.
4. What do you understand by the concept of market risk ? If the 99% daily VaR for a portfolio is Rs. 50 lacs, what does it mean ?

SECTION B

Medium-Length Answer Questions : Answer any
three questions from this section. **3×12=36**

5. Compare the Classical theory, the Loanable Funds theory and the Keynesian theory of the determination of interest rates.
6. Distinguish between a futures contract and forward contract. Briefly explain the binomial options pricing model.
7. Derive a relationship between the monetary base and monetary aggregate. What are the main instruments by which the central bank of a country conducts monetary policy ?
8. What do you understand by 'duration' as used in the analysis of fixed income securities ? In what way is the so-called 'modified' duration measure a modification of the Macaulay measure ?
9. Discuss the main achievements and failures of the Bretton Woods institutions.

SECTION C

Short Answer Questions : Answer any **three** questions from this section. 3×8=24

10. What do you understand by the flow of funds matrix of a country ? What are the uses of flow of funds accounting ?
11. What is an expected utility function ? Explain the properties of an expected utility function.
12. Distinguish between the expectations hypothesis and the market-segmentation hypothesis for the explanation of the term 'structure of interest rates'.
13. Explain how monetary policy can influence financial intermediation.
14. Briefly describe the structure of foreign exchange markets. Explain the difference between spot and forward exchange rates. What is foreign exchange premium ?