

Seminar – LCMB7032 - BFE

MONEY MARKETS

VERBAL

1. Money market Securities are said to be fungible with cash. Why? Name as many reasons as possible.
2. What would the impact be on a Money Market security if Moody's rated the debt at CCC? Why? What if it was rated AAA? Why?
3. The bank you work for needs to borrow \$100M for 30 days, and has access to a variety of sources, the repo and commercial paper markets included. Consider the interest rates payable in the repo market to rates payable in the commercial paper market – which would you expect to be higher and why?
4. The bank you work for decided to borrow \$100M for 30 days in the repo market. Describe the parties involved in this transaction.
5. Many UK business fund working capital requirements via arranged overdrafts. Many US businesses fund working capital requirements via the Commercial Paper market. Which mechanism would you expect to result in lower borrowing costs and why?
6. Why would a firm choose to raise funds via the Money Markets? Why would a firm choose to not raise funds via Money Markets?

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MATHEMATICAL

4.0) Calculate the discount rate for the following money market security :

Face Amount £5,000.00

Purchase Price £4,500.00

Days From Settlement To Maturity 360

4.1) Calculate the discount price for the following money market security:

Discount Rate 10%

Days From Settlement To Maturity 360

4.2) Calculate the discount dollar amount for the following money market security:

Face Amount £5,000

Discount Rate 10%

Days From Settlement To Maturity 360

LIBOR SEMINAR

After reading “The case for reform of Libor” (excerpt from “The Weathley review of Libor. Final report”, September 2012), answer the following questions.

- Highlight and rank 5 most relevant weaknesses of Libor.
- Are Libor and the other reference rates useful? If so, why are they useful?
- Which changes would you introduce in the Libor calculation procedure in order to make it more reliable? Propose at least 3 changes.

- d) Does it make sense to have reference rates? Is there any viable alternative solution, in your opinion?