Questions & Answers

Part 1: True or false

1. **Information asymmetries between managers and small shareholders is due to the fact that managers are more efficient in taking operating decision of a firm.**

False

It is due to the lack of voting power of minority shareholders. This is because of the principle « one share one vote ». In addition, minority shareholders are characterized by lack of expertise and incentives. As a result, too little monitoring will be done by minority shareholders.

2. **A free rider problem is a market failure that occurs when people take advantage of being able to use private goods.**

False

It occurs when people take advantage of being able to use a common resource, or collective goods without paying for it

3. **Information asymmetry is asymmetric distribution of information which could be influential in decision making by each party engaged to the loan agreement. Accordingly, lenders tend to have a hard time differentiating between good credit risks and bad credit risks.**

True

4. **Banks are not usually able to develop long term relationships with their creditors. This is why banks encounter high cost of acquiring information about the creditworthiness of their creditors.**

False

Banks often develop long term relationships with their creditors, which can help overcome the cost of information acquisition.

5. **Less risk induces investors to invest more.**

True

6. **Economic growth requires less specialization, which requires focusing on the production of a limited scope of products or services to gain greater degrees of productive efficiency.**

False

Economic growth requires high degree of specialization

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7. **Usually, banks favour projects with long growth strategies.**

False

Usually, Banks favour conservative projects and slow growth strategies.

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8. **Eurodollars are U.S. dollars issued by a European bank.**

False

Eurodollars are dollars in overseas banks that accept dollar denominated-deposits. Those deposits however are simply credits which eurobanks hold in US banks.

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9. **Most of the money used in the private sector is bank credit money rather than monetary base money (i.e., the money issued by the central bank).**

True

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10. **Short maturity bonds have higher price volatility than long maturity bonds.**

False

Short maturity bonds have lower price volatility than long maturity bonds.

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11. **For a given maturity, high coupon bonds have lower risk than low coupon bonds.**

False

For a given maturity, high coupon bonds have higher risk than low coupon bonds.

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12. **When interest rates rise, the market value of existing bonds rise.**

False

When interest rates rise, the market value of existing bonds false.

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13. **Individuals can buy newly issued securities directly from firms.**

False

Individuals can buy newly issued securities (shares or bonds) from investment banks.

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14. **A country can issue Eurobond on the local stock exchange.**

False

A country can issue Eurobond on the international bond market and sell them through international investment banks.

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15. **A higher risk means lower expected return for a certain financial portfolio.**

False

A higher risk for a certain financial portfolio means a higher expected return.

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16. **A higher liquidity for a certain financial portfolio means a higher expected return.**

False

A higher liquidity for a certain financial portfolio means a lower expected return.

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17. **Amazon confirmed that it has got control of Souq.com, an e-commerce marketplace serving the Middle East based out of Dubai, by buying most of its shares. Such control is called a merger.**

False

Such control is called acquisition or takeover.

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18. **Bank-based finance and market-based finance are supplementary. The dominance of any of such sources of finance may cause different outcomes regarding economic growth.**

False

Bank and market-based finance are complementary. the availability of both systems may spur competition to provide finance.

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19. On August 11, 2016 the IMF announced it had reached a staff-level agreement with authorities in Egypt for a three-year concessional Fund. The three-year fund is called concessional, because Egypt get the fund without paying any interest.

False

Financing that offers flexible or lenient terms for repayment, usually at lower than market interest rates.

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20. Dividends are a distribution of a corporation's profits, while a fixed interest payments are a distribution of a debt contract.

True

Part 2: Define the Following Items

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1. **Finance**

The study of how money is managed. It considers the actual process of acquiring needed funds from main financial sector institutions, such as banks and stock markets, and by utilizing main financial instruments: loans, shares, and other securities.

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2. **Financial Institutions**

Organizations engaged in any of the many aspects of finance including:

commercial banks, investment banks, securities brokers and dealers, and insurance companies.

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3. **Banks**

A bank is a financial institution licensed to receive deposits and make loans. It is considered an indirect finance.

There are three types of banks: commercial (retail) banks, specialized banks and investment banks.

- Commercial banks: National Bank of Egypt, Bank of Alexandria, Commercial International Bank (CIB), and Faisal Islamic Bank of Egypt
- Specialized banks: Bank for Development and Agricultural Credit and Export Development Bank of Egypt
- Investment banks: Al Ahly for Development and Investment and Arab Investment Bank.

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4. Stock Markets

The stock market refers to a market where the trading of equities (stocks of publicly held companies), bonds and other sorts of securities takes place. It is known as the secondary market. It is considered a direct finance. Example: Cairo and Alexandria Stock Exchange

5. Loans

A loan is the act of giving money to another party in exchange for future repayment of the principal amount along with interest. It is a short term to medium term debt contract that requires a collateral.

6. Collateral

Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan.

7. Dividends

Dividends are a distribution of a corporation's profits.

8. An initial public offering (IPO)

An initial public offering (IPO) is the first time that the stock of a private company is offered to the public. IPOs are often issued by smaller, younger companies seeking capital to expand, but they can also be done by large privately owned companies.

9. Liquidity

It refers to having lots of cash or assets easily converted to cash.

10. Creditor

Party that loans money or other assets to another party.

11. The free rider problem

- The free rider problem is a market failure that occurs when people take advantage of being able to use a common resource, or collective good, without paying for it, as is the case when citizens of a country utilize public goods without paying their fair share in taxes.
- The free rider problem results in an under provision of those goods or services. So, it is important to limit free riding and its negative effects in these situations.

12. A takeover

A takeover occurs when an acquiring company makes an ask in an effort to assume control of a target company, often by purchasing a majority stake. If the takeover goes through, the acquiring company becomes responsible for all of the target company's operations, holdings and debt.

13. A liquid market

A liquid market is a market with:

- Many bid and ask offers, low spreads and low volatility.
- Numerous buyers and sellers.
- Liquid market, it is easy to execute a trade quickly

14. Asymmetric information

Asymmetric information, sometimes referred to as information failure, is present whenever one party to an economic transaction possesses greater material knowledge (more or better information) than the other party.

15. Eurocurrency

A Eurocurrency is a freely convertible currency deposited in a bank located in a country which is not the native country of the currency. The Eurocurrency market consists of banks (called Eurobanks) that accept deposits and make loans in foreign currencies.

16. The Eurocurrency market

The market for deposits placed under a regulatory regime different than the regulations applied to deposits used to execute domestic transactions. Countries that allow eurocurrency usually set up special regulations to permit "Eurocurrency deposits" on domestic institutions. Example, US$ deposits outside the United States, UK£ deposits outside the United Kingdom, and so forth.

17. Eurobond

The Eurobond is a special type of bond issued in a currency which is different from the currency of the country or the market in which the bond is issued. These types of bonds are also known as external bonds. Eurobond are categorized by the currency in which they are denominated. Eurobond are usually offered at fixed interest rates, offering a clear fixed-payment debt structure for the issuer (in the short and long term.

18. Concessional Loans (Soft Loans)

Financing that offers flexible or lenient terms for repayment, usually at lower than market interest rates.

19. The European Neighborhood Policy (ENP)

It is a foreign relations developmental policy, which seeks to govern the EU's relations with 16 of the EU's closest Eastern and Southern Neighbors. The South includes: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia. The East includes: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

20. The Impossibility Trinity

It means a country must give up one of three goals:

I. Exchange rate stability

II. Monetary Independence

III. Financial Market Integration (absence of capital control)

21. Common Currency

a system of money shared by two or more countries.

22. Optimal Currency Areas

An optimal currency area is a group of countries suitable to adopt a common currency without significantly jeopardizing domestic policy goals.

Part 3: Explain the Following Statements

1. "Finance matters for growth"

Firms need finance in order to **invest**, especially if they do not have cash. Thus, more efficient banks allow firms to **invest** more by easing the access to required funds. By achieving more investment, economic growth raises.

2. "The financial sector is considered a main actor in any economic system"

This is because, the financial sector:

I. Produces information ex ante about possible investments and allocate capital

II. Monitors investments and exerts corporate governance after providing finance
III. Facilitates the trading, diversification, and management of risk
IV. Mobilizes and pool savings
V. Eases the exchange of goods and services

3. "The financial system is particularly important in producing information and reallocating capital"

There are large costs associated with evaluating firms, managers, and market conditions. Individual savers may not have the ability to collect, process, and produce information on possible investments. Then, high information costs may prevent capital from flowing to its highest value use. Financial intermediaries may reduce the costs of acquiring and processing information and thereby improve resource allocation.

4. "One of main functions of the financial sector is its role in monitoring firms and exerting corporate governance"

Financial sector provides screening and monitoring services that help society to evaluate and rank investment projects. Financial intermediaries acquire, process and evaluate information about potential borrowers. In doing so, they help reduce the large costs that we – as individuals – would face if lending of savings were not intermediated. By monitoring done through the financial sector, managers are abstained from pursuing projects that benefit themselves.

5. "Efficient financial system can help mitigating the free rider problem providing better corporate governance" Based on the previous statement, answer the following questions:

a) Describe the possible conflict between the shareholders and managers.
b) What are the possible solutions for the conflict between the shareholders and managers?
c) Are banks more efficient in overcoming the free rider problem?

a) Describe the possible conflict between the shareholders and managers.

Corporate governance is the system of rules and responsibilities delegated to several groups within a corporation as well as procedures on handling corporate matters. One of the groups, shareholders, is given certain rights as owners of corporations. Shareholders can exert effective corporate governance by voting on

crucial issues, such as mergers, acquisitions, electing boards of directors etc. on the other hand, managers may make decisions that conflict with the best interests of the shareholders, which means managers may not seek for maximizing shareholders' value. This is usually because of information asymmetry between managers and shareholders, particularly small shareholders because of their lack of expertise and incentives.

b) What are the possible solutions for the conflict between the shareholders and managers?

In order to resolve such conflict between managers and shareholders, there are two possible solutions:

1. Concentrated Ownership

By having a concentrated ownership (a controlling shareholder), a close monitoring of the top management is possible. This can affect the firm's performance and allow the firm to take a "long-term" perspective and to maximize the "long-term" value of the firm. However, this solution can greatly harm the smaller shareholders because the controlling shareholder may also act in his own interest, to the detriment of smaller shareholders (e.g. provides jobs or business deals to related parties). In addition, this solution can negatively affect the national policies, as controlling shareholders are often families with great political influence, which means they can influence the national policies to their own interest.

2. A liquid stock market with informative prices

It is possible to link managerial compensation to the growth of stock prices. A high stock price means that investors expect the firm to perform well in the future. In this case, the interests of the manager are aligned with the interests of the shareholders.

c) Are banks more efficient in overcoming the free rider problem?

Debt contracts may be more efficient because they require less monitoring. Because the debt contract is very simple as it only includes an interest rate, monitoring, in this case, only needs to happen in case of default. Debt contracts may be more efficient because:

- Banks are better monitors because they overcome the free riding problem
- Banks often develop long term relationships with their creditors, which can help overcome the cost of information acquisition

6. **"Investors face different types of potential risks that could negatively affect their decision of investment"**

There are main three types of risks:

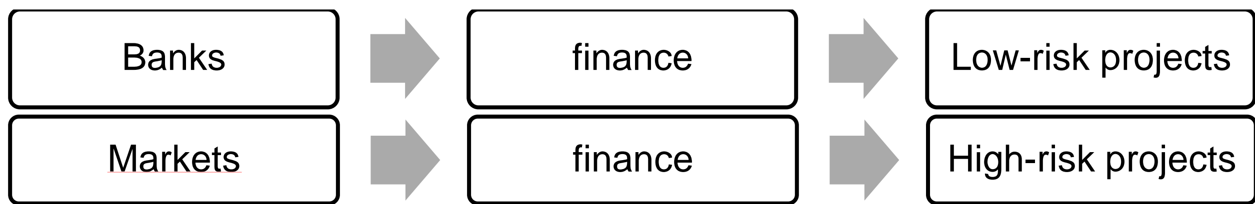
i. A Market risk (systematic risk): it involves factors that affect the overall performance of the financial markets.
ii. A cross-sectional risk: it occurs because of the high correlation among industries. E.g., if you lend to an ice-cream factory, you lose money if the weather is bad. But if you lend BOTH to an ice-cream factory and to an umbrella factory, you are fine on average
iii. Liquidity risk: We can find that high return projects are often less liquid (i.e. the return comes later) than low return projects. The problem is that investors may need liquidity before the returns are realized (liquidity shock). That is, firms may need extra liquidity injections (extra credit) to complete a project. Financial institutions can help mitigate this risk. For example, banks can mitigate the problem by holding many such illiquid projects or a mix of illiquid and liquid projects and Liquid stock markets can make illiquid projects more liquid by making them easily transferable.

7. **"Banks accept deposits in several forms according to requirements of different sections of the society" Based on the previous statement, demonstrate the role of banking sector in mobilizing savings.**

Financial intermediaries (banks) mobilize savings from those people who wants to save for future needs and uncertainties. Banks overcome the transaction costs associated with collecting savings from different individuals. This function is useful in the case of large indivisible projects. It also helps investors hold diversified portfolios.

8. **"Economists and policy makers have debated the relative merits of bank-based versus market-based financial systems". Based on the previous statement, do you think the source of finance matters for economic growth?**

It does not matter whether finance comes from banks or markets. Bank and market-based finance are complementary. the availability of both systems may spur competition to provide finance. Each system may be more appropriate for a certain type of firms:



9. **"In 2014-2016 EU's assistance to Egypt under the ENP focused on three priority sectors"**

The three priority sectors were:

- Poverty Alleviation, Local Socio-Economic Development and Social Protection;
- Governance, Transparency and Business Environment;
- Quality of Life and Environment.

Part 4: Answer the following questions

1. **What is the role of efficient financial sector in mitigating risks?**

Less risk induces investors to invest more, which leads to more economic growth. Efficient financial institutions mitigate the risks associated with individual projects. This is because:

- Efficient stock markets allow investors to buy different stocks with uncorrelated returns
- Banks can provide loans to firms with uncorrelated risks.

2. **List the main five functions of the financial sector**
   - I. Producing information and allocating capital
   - II. Monitoring firms and exerting corporate governance
   - III. Risk Amelioration
   - IV. Pooling of savings
   - V. Easing Exchange

3. **Why do banks reduce the effort extended by firms to undertake innovative business?**

Banks can extract rents from firms because they have a lot of private information. In case of debt renegotiation or liquidity injection, banks have a lot of bargaining power and can extract more of the future profits of the firms.

4. Compare between the role of banks and stock market in disclosing private information of firms.

- For banks: they don't have to display the information they collected, so they can take advantage of this monopolistic position.
- For market: private information collection by market participants is immediately revealed in the stock price.

5. In the following table, mark "1" for the relevant information about a bank and stock market and zero otherwise.

Item	Bank	Stock Market
A Money market	**1**	0
A Capital Market	0	**1**
Raise short term funds	**1**	0
Raise long term funds	0	**1**
It is considered a indirect finance	**1**	0
It is considered a direct finance	0	**1**
Issue certificate of deposit	**1**	0
Trade shares and bonds	0	**1**
Provide interest rate	**1**	0
Provide coupon rate	0	**1**
Provide loans	**1**	0
Raise equity capital	0	**1**
Finance low Risk-Projects	**1**	0
Finance high Risk-Projects	0	**1**
Fulfil short term credit needs of the business	**1**	0
Fulfil long term credit needs of the business	0	**1**
Private information is not disclosed	**1**	0
Private information is revealed in the stock price	0	**1**

6. List the main Corporate Sources of getting funds.

- Internally-generated cash
- Short-term external funds (usually from banks)
- Long-term external funds (usually from stock market)

7. What are the main prerequisites for a country to be a financial center?

a) Political stability
b) Minimal government interventions
c) Advanced Legal infrastructure
d) Advanced financial infrastructure

8. **List the main institutions that can issue Eurobond.**
   a) Private Organizations
   b) International Syndicates
   c) Governments

9. **Give examples that describes the Eurobond.**
   a) A U.K.-based company can issue Eurodollar bond in Japan, (which is denominated in US dollar)
   b) An international financial syndicate can issue Euroyen bonds in Singapore, (which are denominated in Japanese yen).

10. **What is the DAC's definition of ODA?**

Those flows to Countries on the DAC-List of ODA Recipients. Those flows that have the following two characteristics:

1. Provided by official agencies, including state and local governments, or by their executive agencies;
2. Each transaction of which:
   a) is administered with the promotion of the economic development and welfare of developing countries.
   b) is concessional in character (soft loans).

11. **What is the coverage of ODA provided by DAC of OECD?**
    I. Exclusion of Military aid: No military equipment or services are reportable as ODA. Anti-terrorism activities are also excluded. However, the cost of using donors' armed forces to deliver humanitarian aid is eligible.

    II. Peacekeeping: Most peacekeeping expenditures are excluded in line with the exclusion of military costs. However, some closely-defined developmental relevant activities within peacekeeping operations are included.

    III. Nuclear energy: Reportable as ODA, provided it is for civilian purposes.

    IV. Cultural programs: Eligible as ODA if they build the cultural capacities of recipient countries, but activities to promote the donors' image, are excluded.

V. Civil police work: Expenditure on police training is reportable as ODA, unless the training relates to paramilitary functions such as counter-insurgency work or intelligence gathering on terrorism. The supply of the donor's police services to control civil disobedience is not reportable.

VI. Assistance to refugees: Assistance to refugees in developing countries is reportable as ODA. Temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of stay, and all costs associated with eventual repatriation to the developing country of origin are also reportable.

VII. Research: Only research directly relevant to the problems of developing countries may be counted as ODA. Examples: Research into tropical diseases. Note that: the costs may still be counted as ODA if the research is carried out in a developed country.

12. How does a country define its exchange rate?

There are two approaches to express the exchange rate:

a) The price of a unit of foreign currency is expressed in terms of the domestic currency.
b) The price of a unit of domestic currency is expressed in terms of the foreign currency.

13. Compare between the fixed and flexible exchange rate regimes.

Item	Fixed exchange rate regime	Flexible exchange rate regime
Mechanism	central bank pegs the official exchange rate to another country's currency	The central bank leaves the exchange rate to be determined by supply and demand.
Advantages	•Provide a nominal anchor for monetary policy •Reduce transactions costs and exchange rate risk	•Monetary Policy independence (discretionary policy) •Automatic adjustment to trade shocks
Disadvantages	•Loss of monetary policy autonomy •Loss of exchange rate as a shock absorber •Danger of speculative attacks by currency holders	•Exchange rate uncertainty Need to find a less obvious anchor (→Consequences for inflation) •Danger of speculative bubbles represented in inflationary trends.

14. What are the advantages and disadvantages of the implementation of a common currency?

- Advantages of a Common Currency
- Reduction in exchange rate risk: Eliminates the risk of exchange rate variability, which increases capital market stability
- Reduction in transactions costs: There is no exchange of currencies among members, so transaction costs are reduced.
- Disadvantages of a Common Currency
- Loss of independent monetary policy: With a common currency monetary policy is the same in all countries because there is one money supply and one central bank
- Loss of national symbol: Losing a national currency may be a loss of national identity or heritage

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15. What is criteria required for achieving the optimal currency areas?

a) Similar composition of industries
b) Significant mobility for factors of production (labor and capital)
c) Diversified economies

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16. By providing examples, analyse the classification scheme of exchange rate regimes in Arab countries.

It is distinguished between two main groups:

- **The first group** involves countries that follow pegged exchange rate regimes. In these countries, the local currency is either pegged to a single currency, the SDR, or other weighted composites formed from the currencies of major trading or financial partners.
- Note: Most Arab countries belong to the first group as 12 of them follow a pegged regime.

Example: Exchange Rate Regimes in Arab Gulf Cooperation Council (AGCC) Countries.

- ✓ **Before year 2000:** Currencies of Saudi Arabia, Qatar, Bahrain, U.A.E are officially pegged to the SDR; while Oman's currency is officially pegged to the dollar, and Kuwait's currency is determined on the basis of a fixed-but adjustable relationship between the dinar and a weighted basket of currencies.
- ✓ **After year 2000:** The AGCC countries decided a strategy to formalize a common peg to the dollar as an initial step toward a possible common currency area in the future.

- **The second group** involves countries that follow more flexible forms of exchange rate regimes, which are either managed floating or independent floating. In particular, most of these countries adopted a managed floating exchange rate regime. They include Tunisia**,** Algeria, Egypt, Lebanon, and Mauritania.

Note about Egypt: During 2000, Egypt departed from the peg to the U.S. dollar adopted in early 1991 to a more flexible exchange rate. in late 2016, Egypt announced a floating regime (totally market-determined).

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17. Analyze the Maastricht Convergence Criteria and Stability & Growth Pact.

- **Convergence Criteria**

  The Maastricht Treaty specifies that EU member countries must satisfy several convergence criteria in terms of:
  - ✓ **Price stability:** Maximum inflation rate 1.5% above the average of the three EU member states with lowest inflation.
  - ✓ **Exchange rate stability:** Stable exchange rate within the ERM without devaluing on its own initiative.
  - ✓ **Budget discipline:** Maximum public-sector deficit 3% of the country's GDP and Maximum public debt 60% of the country's GDP.
- **Stability and Growth Pact (SGP)**

A Stability and Growth Pact (SGP) in 1997 sets up:
- ✓ The medium-term budgetary objective of fiscal positions (balance or surplus).
- ✓ A timetable for the imposition of financial penalties on countries that fail to correct situations of "excessive" deficits and debt.

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18. Demonstrate the European System of Central Banks (ESCB)

It consists of the European Central Bank (ECB) in Frankfurt plus national central banks of euro zone. The ESCB has the following characteristics:
- ✓ The ECB conducts monetary policy for the euro zone.
- ✓ The ECB sets its own inflation target (its main purpose being the achievement of price stability).
- ✓ Market interventions by the ECB are carried out through national central banks.
- ✓ The ECB has no direct power over fiscal policies of the member states. (It can, however, issue recommendations).
- ✓ National governments are barred from intervening on matters of monetary policy.

- ✓ Monetary financing of public expenditure is forbidden.
- ✓ National central banks remain in charge of banking supervision.
- ✓ Monetary policy is designed to be independent from political pressures. (The ECB President and Executive Board are appointed for eight years). However, it is dependent on politicians in two respects:
  - The ESCB's members are politically appointed.
  - The Maastricht Treaty leaves exchange rate policy for the euro zone ultimately in the hands of the political authorities.

19.Define FDI and analyze its mutual benefits between the host and receiving country in the context of the Eu-Mediterranean relationship.

- Foreign Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise.
- For the receiving and host country, this form of capital flow is beneficial in the following respects:
  1. The reception of investment capital while the availability of equity is reduced or absent.
  2. It provides an opportunity for the host economy to promote its products more widely in international markets.
  3. Technology and know-how transfer which helps modernize technologies sectors and/or the emergence of new sectors.

4. The opportunities for increasing the share of main economic sectors in GDP such as the primary, services, and manufacturing sector.
5. Provide financial stability, promote economic development and enhance the well-being of societies.

Note: FDI effects on receiving or host countries vary widely from country to country and are subject to many factors, among which are:

- ✓ The overall level of economic and social development
- ✓ Capacity of efficient FDI absorption
- ✓ Availability of natural resources
- ✓ State of energy, transport, communications and public services infrastructures
- ✓ Technological innovations in communications and data processing.

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20. What are the main forms of European aids?

About 25% of EU aid is "budget support" which is aid given directly to governments so they can do their work. By providing governments of developing countries the freedom to decide which sectors to be developed, the EU directly supports the country's own policies and systems so that the results can have a lasting effect. The EU does not only work with the governments but also makes sure that civil society organizations are included: this could be non-governmental organizations, trade unions, human rights groups, environmental organizations, chambers of commerce and many others.

The main sectors, in descending order, that the aid from EU institutions and members is spent on are:

1. Government and civil society.
2. Humanitarian Aid.
3. Education.
4. Banking and financial services.
5. Transport and Storage.
6. Agriculture.

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21. Discuss the OECD's definition of ODA and its influence on Arab economies.

The DAC defines ODA as "those flows to countries and territories on the DAC List of ODA recipients and to multilateral institutions. These flows are:

- provided by official agencies, including state and local governments, or by their executive agencies; and
- Each transaction of which:

- is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
- is concessional in character.

■ **The Impact of Foreign Aids on Economic Growth**

Three arguments regarding the impact of ODA on economic growth:

- ✓ Aid is bad for Economic Growth.
- ✓ Aid is vital for Economic Growth.
- ✓ Positive influence of aid is linked to political & economic conditions.

In general, we can say that: the question whether or not foreign aid enhances economic growth and efficiency in resource use has long been debated, but still no consensus is found among researchers and policy makers. Empirically, there is little evidence of a significant positive effect of aid on the long-term growth of poor countries. Empirical evidence is in favor of the argument that aid spurs economic growth only in certain macroeconomic environments. This also depends on the type of Aid itself, as we can say that developmental aid has a positive effect on growth, while non-developmental aid is mostly growth neutral or negatively associated with economic growth.

■ **The Social Influence of Foreign Aids:**

- ✓ Development efforts usually aim at enhancing aid recipients' welfare through alleviating poverty, lowering unemployment and income inequality, providing improved social infrastructure and accumulating human capital.
- ✓ Developmental Foreign Aid may reduce poverty level and improve indicators of health and education.

Part 5: Differentiate between the following items

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1. The Primary Capital Market and the secondary capital market

- Primary market: When a company publicly sells new stocks and bonds for the first time, it does so on the primary capital market. This takes the form of an initial public offering, or IPO.
- Secondary market: When owners of the securities want to sell them.

It should be noted that, in the primary market, investors buy securities directly from the company issuing them, while in the secondary market, investors trade securities among themselves, and the company with the security being traded does not participate in the transaction.

2. Stocks and bonds

- Stocks: They represent an ownership interest in a corporation. Stocks pay dividends (coupon rate) to the owners, but only if the corporation declares a dividend.
- Bonds: They are a form of long-term debt in which the issuing corporation promises to pay the principal amount at a specific date. Bonds pay interest to the bondholders. Generally, the bond contract requires that a fixed interest payment be made every regular basis.

3. Face Value and Market Value

- Face value: It is the nominal value of a security stated by the issuer.
  - It is the value printed or depicted on a security.
  - It is also known as "par value".
- Market value: It is determined based on principles of supply and demand, often governed by what investors are willing to buy and sell a particular security.

4. Liquid asset and Illiquid asset

- Liquid asset: An asset that can be converted into cash in a short time, with little or no loss in value.
- Illiquid asset: An illiquid asset is an asset that can't be converted into cash quickly. If it is sold in short time, it will significantly and negatively affect the price received.

5. A shareholders and Stakeholders

- A shareholder owns part of a company through stock ownership,
- A stakeholder is interested in the performance of a company for reasons other than just stock appreciation. Stakeholders could be: employees who, without the company, would not have jobs.

6. A Merger and an Acquisition

- A merger occurs when two separate entities combine to create a new, joint organization. a merger requires two companies to consolidate into a new entity with a new ownership and management structure
- An acquisition (takeovers) refers to the takeover of one entity by another. The smaller company's assets become part of the larger company. An acquisition occurs when a buyer acquires all or part of assets of a selling entity. An acquisition takes place when one company takes over all of the operational management decisions of another.

7. Volatility and Spread

- Volatility is a statistical measure of the dispersion of returns for a given security or market index.
- Spread refers to the difference between the lowest ask price and the highest bid price.