



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

**BANKING OPERATION 2B
BOP22B2**

Last Assessment Opportunity

December 2016

Time: 2 hours

Marks: 100

Assessor: Yusuf Patel

Moderator: John Mabejane (Internal)

INSTRUCTIONS:

- This paper consists of 4 pages (including the cover page).
- Start each question on a new page.
- Calculators are allowed

Question	Topic	Marks	Time
1	Financial services terminology	5	6 minutes
2	The money markets	10	12 minutes
3	The bond markets	26	31 minutes
4	The equity market	21	25 minutes
5	The derivative market	25	30 minutes
6	The FOREX market	13	16 minutes
		100	120 minutes

QUESTION 1 - (5 marks)

1.1 Define the following terms:

1.1.1 Systematic risk (2)

1.1.2 Unsystematic risk (2)

1.1.3 Financial markets (1)

QUESTION 2 - (10 marks)

2.1 List and explain five (5) types of money market instruments (10)

QUESTION 3 - (26 marks)

3.1 Discuss the five factors that affect the interest rates of bonds. (15)

3.2 A bond is issued with details as follows: Principal value: R10 000 000, Coupon rate: 10%, Coupon payment: 30 June and 31 December. Register closes 15 days before interest payment date, Maturity day: 1 July 2026. The bond was issued on the 1st June 2016. All in price: R 15 800 000

This bond is traded for settlement on 10 November 2016. Calculate:

3.2.1) Running yield (3)

3.2.2) Is the bond trading at par, premium or discount? (1)

3.2.3) Is the bond trading cum or ex interest? (1)

3.2.4) Calculate accrued interest. (3)

3.2.5) Calculate clean price. (3)

QUESTION 4 - (21 marks)

- 4.1 Equities shares are traded on a stock exchange, explain any five methods of listing on the stock exchange (15)
- 4.2 Preference shares are considered to be a hybrid debt/equity instrument, explain what is meant by this by identifying and explaining the relevant debt and equity characteristics (6)
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QUESTION 5 - (25 marks)

- 5.1 List and explain any 5 types of options (10)
- 5.2 Your client Mr Benson who has a farm wants to hedge against future price movements of maize. He has heard from his friend that he can buy an option in order to protect himself against future losses.
- 5.2.1) Explain to him what an option is. Also mention its characteristics specifying the potential loss to the buyer and seller. (7)
- 5.2.2) As a seller of maize, should he buy a call or put option? Explain why? (3)
- 5.3 A swap is a type of financial derivative, explain how a swap works and why would an entity choose to make use of a swap? (5)
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QUESTION 6 - (13 marks)

- 6.1 There are three (3) types of activities that can be found within the FOREX market, list and explain these activities. (6)

6.2 List the three (3) main purposes of the FOREX market. (3)

6.3 Explain the interest rate parity and the purchasing power parity. (4)

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