DEPARTMENT OF COMMERCIAL ACCOUNTING

FINANCIAL SERVICES OPERATIONS 2B
FSO22B2

ASSESSMENT PARTICULARS

ASSESSMENT OPPORTUNITY: SUPLEMENTARY

MARKS: 100

ASSESSOR: MR. T.GOPANE

MODERATOR: MR.Y. PATEL

DATE: 09 January 2018

TIME: 08h00

VENUE: TBA

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NUMBER OF QUESTIONS: 5 (and subsections)

NUMBER OF PAGES: 4 (including this one)

INSTRUCTIONS

1. *Start each question on a new page.*
2. *Use mark allocation as a guide to what is required.*
3. *Round your final answers to two decimal places.*
4. *Answer all questions.*
5. *Non-programmable calculators are permitted.*
6. *You are not allowed to use cell phone as a calculator.*
7. *Write neatly*

MARK ALLOCATION

Question	Details	Marks	Time (in minutes)
1	Bonds Market	20	36
2	Derivatives Market	20	36
3	Investment Funds	20	36
4	Other Financial Products	20	36
5	Introduction to Finance Models and Theory	20	36
		100	**180**

1. Bonds Market. [20]

a.) State the administration office that issues government bonds in the following countries: (3)

i.) USA

ii.) UK

iii.) Germany

b.) State the bond counterparty that the following provisions are intended to protect and explain how. (3)

i.) Put Provision

ii.) Call Provision

c.) One type of corporate bond is, MTN. State 3 others. (3)

d.) You are required to explain the role of each of the linked-participants in the mortgage-backed bond stated below. Your answer must clearly show the collaborative chain of product linkage among these participants. (3)

i.) Bank

ii.) Special Purpose Vehicle

iii.) Bond Investors

e.) Assume that an investor has purchased a bond for ZAR10 000 with a coupon of 9.5%, with a maturity of 2025. You are informed that at maturity, the bond value is ZAR14 680. You are required to compute:

i.) The bond Flat Yield. (3)

ii.) The bond purchase price per ZAR100.00. (3)

f.) What is the distinction between Flat Yield and Yield to Maturity? (2)

2. Derivatives Market. [20]

a.) You are required to demonstrate a basic understanding of Derivatives Market. Answer the following questions with the appropriate term, or phrase. Do not discuss.

i.) A contract that gives the buyer the right, but not the obligation, to buy or sell an asset at a particular price on or before a specified date. (2)

ii.) A contract that gives the seller the right, but not the obligation to sell an asset for a specified price on or before a specified date. (2)

iii.) A contract that binds the counterparties with a respective obligation to make delivery or take delivery of an underlying asset for a pre-specified price, quantity, quality, at a future date. (2)

b.) State 3 advantages of derivatives to support a claim that derivatives are important. (3)

c.) Suppose shares in Marabastad (Pty) Ltd are trading at ZAR5.25. The investor, Lulu buys a ZAR5.75 call for 9 months from the option writer, Dada. Nine months later, when the call option expires the Marabastad share is less than ZAR5.75. You required to:

i.) Quantify and explain profit or loss to Lulu. (5)

ii.) Quantify and explain profit or loss to Dada. (5)

iii.) If Marabastad share rises to ZAR6.00. Explain Dada's most likely investment action? (1)

3. *Investment Funds.* [20]

a.) You are required to demonstrate your understanding of Investment Funds trading. Who do investors deal with for secondary trading of units or shares in the following funds: (6)

i.) SICAV.

ii.) Foreign & Colonial Investment Trust (UK)

iii.) Split Capital Investment Fund

iv.) OEIC.

v.) Unit Trust.

vi.) Real Estate Investment Trusts

b.) State three factors to distinguish an ETF Fund from a Hedge Fund. (3)

c.) To demonstrate your understanding of investment strategies, you are required to name the following investment styles. State a term or phrase only. Do not discuss. (3)

i.) Picking of shares of companies with present opportunities to grow significantly in the long term.

ii.) Picking of shares of companies that are undervalued relative to their present and future profits or cash flows.

iii.) Picking of the shares whose share price is rising on the basis that this rise will continue.

d.) XYZ Investment Trust shares are trading at £1. The NAV per share is £1.05. XYZ Investment Trust shares are trading at a discount. In terms of the NAV state whether the fund is trading at discount, premium, par, market value, or other. Show the necessary calculations to support your answer. (3)

e.) Distinguish the benefit of investing in REITs as opposed to property investment directly. (3)

f.) Distinguish between Direct Investment and Indirect Investment. Give on example of each. (2)

4. *Other Financial Products*. [20]

a.) Define and outline two advantages of an Occupational Pension Scheme. (3)

b.) State three advantages of a Defined Contribution Scheme in order to distinguish it from a Defined Benefit Scheme. (3)

c.) State three characteristics of the scheme, Individual Retirement Accounts (IRA), in relation to tax advantages or disadvantages. (3)

d.) Give brief but intuitive explanation of the rates below. Not more than one sentence each. (3)

i.) Quoted annual Flat Rate, (QFR).
ii.) Effective Annual Rate (EAR).
iii.) Annual Percentage Rate (APR).

e.) In order to compute interest rate per R1.00, state a formula for each of the following: (3)

i.) Simple interest rate
ii.) Effective annual interest rate compounded for discrete number of periods per year.
iii.) Effective annual interest rate compounded continuously for more than a year.

f.) Assume: You applied for a loan a loan of R150 000.00 to buy a vehicle.

- Bank 1: Offers 8% per annum compounded monthly for 2.5 years.
- Bank 2: Offers 7% per annum compounded continuously for 3 years.

i.) Assuming you want the cheapest borrowing cost, which bank will you choose? Show all the computations on which your answer is based. (3)
ii.) Why are the borrowing costs different for the two banks, if they are? (2)

5. Introduction to Finance Models and Theory. [20]

a.) State five behavioural biases proposed by Behavioural Finance in the decision making process by investors (10

b.) State and explain 3 categories of Fama (1966)'s Efficient Market Hypothesis. ………(10)

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