



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Management
DEPARTMENT	Business Management CEP's
CAMPUS	APB
MODULE NAME	Risk Financing
MODULE CODE	AC1FRIN
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Summative Assessment October 2020

ASSESSMENT DATE	30 October 2020	SESSION	Online
ASSESSOR	Mr. Yatish Singh		
MODERATOR	Ms. Nisha Govender		
DURATION	2 hours	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	10
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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
 - Question papers must be handed in together with your answer books.
 - Read the questions carefully and answer only what is asked.
 - Answer all the questions:
 - Number your answers clearly.
 - Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
 - Structure your answers by using appropriate headings and subheadings.
 - The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.
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SECTION A**[32* 1.25 = 40 MARKS]****Question 1**

Which of the following is a feature of pure risk?

- A. It is predictable
- B. It is certain
- C. It has both upside and downside risk
- D. None of the above

Question 2

The cause of loss or the contingency that may cause a loss is referred to as:

- A. Risk
- B. Peril
- C. Danger
- D. Hazards

Question 3

A potential major disruption in the function of an entire market or financial system is referred to as:

- A. Systemic risk
- B. Economic risk
- C. Financial risk
- D. Pure risk

Question 4

Which of the following is not a function of financial markets?

- A. Raising capital
- B. Transfer of risk
- C. International trade
- D. None of the above

Question 5

All of the following can be described as involving indirect finance except:

- A. A corporation's shares are traded in an over-the-counter market.
- B. People buy shares in a mutual fund.
- C. A pension fund manager buys commercial paper in the secondary market.
- D. None of the above.

Question 6

All of the following are characteristics of money market instruments except?

- A. Liquidity
- B. Marketability
- C. High risk
- D. None of the above

Question 7

Which of the following is not an advantage of money market instruments?

- A. Low risk
- B. Money market funds consistently outperform inflation
- C. Easily accessible
- D. All of the above are advantages of money market funds

Question 8

In which market would government bonds with a maturity of less than two years trade?

- A. Money market
- B. Capital market
- C. Discount market
- D. Yield market

Question 9

Which of the following is not an example of a discount instrument?

- A. Banker's acceptances
- B. Treasury bills
- C. Repurchase agreements
- D. All of the above

Question 10

An open repurchase agreement allows for:

- A. The investor to make additional investments at any time
- B. The investor to close the agreement
- C. The issuer to recall the agreement at any time
- D. Both investor or issuer to cancel the agreement at any time

Question 11

The bond exchange protects investors by;

- A. Ensuring full and fair disclosure
- B. Enforcing depositor protection
- C. Providing collateral in event of default
- D. All of the above

Question 12

Securitization would result in the liabilities on a bank's balance sheet:

- A. Increasing
- B. Decreasing
- C. Remaining unchanged
- D. Insufficient information provided

Question 13

Debentures that may be exchanged for other securities on previously specified terms are known as _____ debentures.

- A. Redeemable
- B. Callable
- C. Secured
- D. Convertible

Question 14

Which of the following statements about the characteristics of debt and equity is incorrect?

- A. They can both be long-term financial instruments.
- B. They both involve a claim on the issuer's income.
- C. They both enable a corporation to raise funds.
- D. None of the above.

Question 15

MNC Company had a retention ratio of 60% in 2018. The payout rate in 2018 was?

- A. 40%
- B. 50%
- C. 60%
- D. 0%

Question 16

Participating preference share:

- A. Carry voting rights
- B. Are entitled to a fixed dividend
- C. Are not entitled to a fixed dividend, but share in profits
- D. Are entitled to a fixed dividend, and also share in profits

Question 17

Equity valuation is necessary for?

- A. When a company is being liquidated
- B. When a shareholder needs to dispose of their holding
- C. When a company needs to re-finance current debt
- D. All of the above

Question 18

The basis of fundamental equity valuation includes an analysis of:

- A. Economic variables
- B. Industry variables
- C. Financial statements
- D. All of the above

Question 19

What is the most important use of the P/E ratio for investors?

- A. It helps investors decide how much profit a company is likely to make in future.
- B. It helps investors decide whether a company's shares are overpriced or underpriced.
- C. It helps investors decide on the most appropriate risk to reward ratio.
- D. None of the above.

Question 20

The current yield on a bond is equal to?

- A. Annual interest payment divided by the current market price
- B. The yield to maturity
- C. Annual interest divided by the par value
- D. The internal rate of return

Question 21

A zero-coupon bond has similar features to which of the following money market instruments?

- A. Discount instruments
- B. Yield instruments
- C. All of the above
- D. None of the above

Question 22

Which of the following does not influence the interest rate on bonds?

- A. Market interest rate
- B. Credit ratings of the bond issuer
- C. Supply and demand in market
- D. Balance of payments

Question 23

As market interest rates increase, the price of a bond would most likely:

- A. Increase
- B. Decrease
- C. Remain unchanged
- D. Cannot be predicted as there is no correlation

Question 24

Bonds that can be recalled before maturity at the discretion of the issuer are an example of:

- A. Callable bonds
- B. Recallable bonds
- C. Redeemable bonds
- D. Puttable bonds

Question 25

An option which gives the holder the right to buy a share at a specified price at some time in the future is called a:

- A. Call option
- B. Put option
- C. Future
- D. Forward

Question 26

The value of a call option is inversely related to:

- A. Underlying stock price.
- B. Time to expiration
- C. Exercise price.
- D. Choices a and b

Question 27

Which of the following is potentially obligated to buy an asset at a predetermined price?

- A. The buyer of a call option
- B. The seller of a call option
- C. The buyer of a put option
- D. The seller of a put option

Question 28

A European call option gives the holder:

- A. Right to buy the security, on or before expiry
- B. Right, but not the obligation to buy on or before expiry
- C. Obligation to buy on expiry date
- D. Right, but not the obligation to buy on the expiry date

Question 29

When buying a foreign currency, the price you would pay at a dealer is:

- A. Bid price
- B. Ask price
- C. Mid-rate
- D. Fully negotiated between buyer and seller

Question 30

USDZAR is currently quoted as R14.50 in the spot market and R14.25 in the futures market.

This is an example of a:

- A. Forward premium
- B. Forward discount
- C. Arbitrage opportunity
- D. Options A and C are correct

Question 31

Which of the following factors do not influence exchange rates?

- A. Inflation
- B. Government policy
- C. Political factors
- D. None of the above

Question 32

Which of the following is most likely a motive for hedging?

- A. Speculation
- B. Arbitrage
- C. Insurance
- D. All of the above

SECTION B: Case study**[25 MARKS]**

Conor McGregor recently started his own business, Proper Twelve Ltd, which produces, bottles and distributes whiskey. Conor raised capital of R2 000 000 by taking a loan from a commercial bank. Conor plans to raise an additional R3 000 000 by issuing new shares, this will result in his shareholding decreasing from 100% to 70%.

Question 1.1

Identify different classes of pure risk and explain how each may affect the operations of Proper Twelve Ltd. (8)

Question 1.2

Discuss possible disadvantages that may arise from issuing additional shares. (3)

Question 1.3

Conor plans to invest surplus cash generated by the share issue to fund a new project in six month's time. Conor plans to invest this money into a money market unit trust which returns 6% per annum. Explain to Conor the significant features of a money market fund and whether this would be a suitable investment. (5)

Question 1.4

Proper Twelve Ltd expect the price of barley to increase significantly over the next few months. Explain to Conor what a forward contract is and how it can be used to reduce the risk of a significant price increase.

For illustrative purposes you may assume the current price of barley is R10 per kg and in the worst-case scenario would increase to R15 per kg. (4)

Question 1.5

Proper Twelve received a large order to sell whiskey to an American customer, Conor is worried that exchange rate fluctuations. Discuss possible hedging strategy that may be used by Conor to protect against currency fluctuations. (5)

SECTION C: Longer questions**[35 MARKS]****QUESTION 1****[12 Marks]****Question 1.1**

Define risk and uncertainty.

(4)**Question 1.2**

Identify and explain different hazards that a business may experience as a result of Covid-19.

(8)**Question 2****[10 Marks]****Question 2.1**

Discuss the advantages of an active capital market.

(6)**Question 2.2**

Discuss the role of financial intermediaries within a financial system and explain how commercial banks act an intermediary.

(4)**Question 3****[13 Marks]****Question 3.1**

Identify different types of preference shares which exist and discuss key features of each.

(10)**Question 3.2**

List the core principles underpinning technical analysis.

(3)