

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INVESTMENT (IOBM –AD310)**

**Date: Saturday, 5th May 2012**

**Time Allocated: 3 hours (13:30 – 16:30 pm)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of multiple choice questions each carries 2 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer sheets without examination numbers will not be marked.**

7 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

**Answer ALL questions**

1. Investment involves:
2. Investing money randomly in different investment vehicles and sitting quiet on the couch waiting for returns
3. Placing funds in a machine where one is likely to earn lots of millions at once
4. Putting money in investment vehicles, through thorough analysis and then watches over his/her investment’s performance
5. Putting money in vehicle business so that it multiplies by itself
6. None of the above.
7. Which of the following is true about bonds:
8. Bonds are riskier than investing in a corporate
9. Investing in bonds requires old people than young people since they have long maturity periods
10. Bonds do not have a secondary market and hence they are not tradable securities
11. Bonds are offered at a discount and you receive the whole face value upon maturity
12. When market interest rates go up bonds also increase in value.
13. Before bonds are issued which of the following must government put into consideration:
14. Investors desire
15. Number of people in the society
16. Expected market yields
17. Investors who already have investment in a bond.
18. I, ii and iv
19. Ii, iii and iv
20. Iii, and iv
21. I and iii
22. All of the above
23. Which type of bond has a tax bonus added to it:
24. Government bonds
25. Municipal bonds
26. Corporate bonds
27. Zero coupon bonds
28. Junk bonds.
29. An investor who seeks high return must:
30. Invest all his funds in stocks which have high price per share so that he sells at a profit
31. Must invest in a low risk investment vehicles so as to avoid risk while making more money
32. Must accept high risk in choosing his portfolio so as to offset with high returns
33. Gamble in a casino as high returns are achieved on a good night
34. A,B and C.
35. Aggressive and defensive investment strategies involves the following:
36. Investing in very risky business venture while watching its dangers and putting all funds in one investment vehicle
37. Investing in order to preserve the capital while ensuring some returns from investments while defensive involves investing in high return high risk with the aim of profit maximization
38. A balanced investment being the successful of them all and the higher the bonds’ coupon rate the higher the yield
39. Investing in high return high risk investments with sole aim of return maximization and defensive preserves the capital while ensuring some return from investments
40. All of the above are correct.
41. A rising stock market index due to higher share prices:
42. Increases people’s wealth, but is unlikely to increase their willingness to spend
43. Increases the amount of funds that business firms can raise by selling newly-issued stock
44. Increases people’s wealth and as a result may increase their willingness to spend.
45. Both (b) and (c) of the above
46. None of the above
47. (i) A bond is a debt security that promises to make payments periodically for a

specified period of time.

(ii) A stock is a security that is a claim on the earnings and assets of a corporation.

1. (i) is true, (ii) false.
2. (i) is false, (ii) true.
3. Both are true.
4. (i) only.
5. None of the above
6. Derivative market involves:
7. Buying and selling of actual stocks at market prices.
8. Buying and selling of options, futures, spot.
9. Buying and selling forward exchange transactions only and market prices.
10. Buying and selling forex at spot rates only.
11. All of the above
12. Shares of Auctions Holdings Ltd a company incorporated in Malawi are traded on:
13. Auction floors as tobacco sales are being conducted
14. At formalized market, i.e. Malawi Stock Exchange
15. Over the counter market
16. At accountant general’s office
17. At stock broking firms, i.e. stock brokers Malawi.
18. A company which intends to list on a local bourse/ local stock exchange needs to:
19. File with brokers for its shares to be traded on the stock exchange.
20. Offer its shares to financial institutions such as old mutual Malawi and NICO in order to bring IPO.
21. Must offer shares through an IPO.
22. Seek legal action to trade at MSE.
23. All of the above.
24. Capital markets can be analyzed from various other perspective through the following **except:**
25. Distinction can be made between public sector borrowers who use stocks (i.e. bonds) and private sector borrowers who issue debentures
26. Distinction between fixed rate securities and variable rate securities
27. Securities are listed on a stock exchange and are in different categories than unlisted
28. Classification is between the primary capital market where first issues are sold and the secondary market where issued securities are subsequently traded
29. None of the above.
30. Which of the following are **not true** about capital markets:
31. Capital gains made are merely a result of interest rate changes and not profit growth as in the case of listed shares
32. The securities cannot be used as collateral for loans such as banks
33. If interest rise there may be capital gain.
34. The maturity proceeds are guaranteed in kwacha terms.
35. B and C
36. A market is defined as:
37. A physical place where goods and services are bought and sold
38. A means through which buyers and sellers are brought together to transact goods and services
39. A primary place where buyers and sellers meet to buy and sell goods and services. It is confined to one place.
40. A meeting place for traders to do barter trade
41. All of the above are correct.
42. The following are money market instruments:
43. NCDs, T/bills, Bankers acceptance, bonds.
44. T/bills NCDs, Bonds, stocks, debentures.
45. NCDs, bankers acceptance, T/bills, bonds, shares.
46. Bills of lading, Treasury bills, bonds, derivatives, stocks.
47. A and C
48. The tender price if an investor decides that the rate he would like to earn is 17.6% for a tenor of 91 days is:
49. MK95.94%
50. MK4.39%
51. MK95.61%
52. MK82.40%
53. MK17.60%
54. Which of the following is closest to the forward price of a share price if Cash Price = Rs.750, Futures Contract Maturity = 1 year from date, Market Interest rate = 12% and dividend expected is 6%. (MK = Malawi Kwacha).
55. Mk. 795
56. Mk. 705
57. Mk. 845
58. Mk. 701
59. None of these
60. An investor owns one thousand shares of Reliance. Around budget time, he gets uncomfortable with the price movements. One contract on Reliance is equivalent to 100 shares. Which of the following will give him the hedge he desires?
61. Buy 5 Reliance futures contracts
62. Sell 10 Reliance futures contracts
63. Sell 5 Reliance futures contracts
64. Buy 10 Reliance futures contracts
65. None of the above
66. The value of a call option \_\_\_\_\_\_\_\_\_\_\_ with a decrease in the spot price.
67. Increases
68. does not change
69. decreases
70. increases or decreases
71. none of the above.
72. Which risk estimation methodology is used for measuring initial margins for futures/options market?

Value At Risk

1. Law of probability
2. Standard Deviation
3. None of the above
4. A and C
5. An option which gives the holder the right to sell a stock at a specified price at some time in the future is called a \_\_\_\_\_\_\_\_\_\_\_.
6. Naked option
7. Call option
8. Out-of-the-money option
9. Put option
10. None of the above
11. GDP is measured through:
12. Total number of goods and services produced by the citizen.
13. Expenditure approach totaling expenditure on all final goods and services produced during the year and resource approach summing the costs of producing and applying those goods and services.
14. Summing up all goods and services that a country has produced.
15. The difference between goods produced and goods sold over a year.
16. A,B & D are correct
17. The phase of the business cycle where the GDP is sloppy for a consecutive/ successive period/quarters is referred to as:
18. Trough
19. Peak
20. Contraction
21. Expansion
22. None of the above
23. Which of the following is **not** a use of security market indices:
24. To examine the factors that influence aggregate securities price movement
25. To show what a share price is for a particular counter/stock
26. To measure a portfolio performance over various time periods
27. To help in the construction of index portfolios
28. For the purposes of economic forecasts.
29. Advantages of investing in property are as follows **except:**
30. It cannot be stolen
31. Its value as security is high
32. Property price cycles are usually long ensuring stability
33. All of the above
34. None of the above.
35. What characteristic does a sale and lease back of an asset have?
36. The lessee is the legal owner of the asset
37. The lessee is entitled to use the asset for a long time
38. The lessor is the legal owner of the asset
39. Ownership is transferred as soon as the asset has been sold and then leased back
40. B,C & D are correct.
41. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a group of investors who pool funds to buy property they would not otherwise be able to buy on their own capacity:
42. Mutual funds
43. Unit trusts
44. Syndication
45. Insurance institutions
46. A and B are correct
47. The following are correct as regards to property investments:
48. There is slow response time to new opportunities
49. You have to ask yourself what does your investment vehicle own before investing
50. Property values may increase because the current market yield on the purchase of that type of property increases
51. The risk of the investment is estimated by considering ease of liquidation
52. A, B & D only are correct.
53. The purchaser acquires the right to purchase an agreed quantity of the underlying asset at a certain price during the life of the option:
54. Call option
55. Put option
56. Double option
57. Futures option
58. Forward option
59. If there is a net financial benefit to be derived from the exercising the option immediately it is called:
60. In-the-money
61. At-the-money
62. Out-the-money
63. For-the-money
64. With-the-money

**SECTION B (40 MARKS)**

**Answer ANY TWO questions**

**QUESTION 1**

1. Financial ratios have little if any relevance and must be viewed against certain significant standards or norms to have usage value. Give **three** types of comparisons being referred to in the above statement. *(3 marks)*
2. The following information has been extracted from the recently published accounts of XYZ Ltd.

**EXTRACTS FROM THE INCOME STATEMENTS TO 30 APRIL**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2009** | **2008** |  |  |
|  | **$'000** | **$'000** |  |  |
| Sales | 11,200 | 9,750 |  |  |
| Cost of sales | 8,460 | 6,825 |  |  |
| Net profit before tax | 465 | 320 |  |  |
| This is after charging: |  |  |  |  |
| Depreciation | 360 | 280 |  |  |
| Loan note interest | 80 | 60 |  |  |
| Interest on bank overdraft | 15 | 9 |  |  |
| Audit fees | 12 | 10 |  |  |
|  |  |  |  |  |
| **STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL** | | |  |  |
|  |  | **2009** |  | **2008** |
|  | **$'000** | **$'000** | **$'000** | **$'000** |
| **Assets** |  |  |  |  |
| Non current Assets |  | 1,850 |  | 1,430 |
| **Current assets** |  |  |  |  |
| Inventories | 640 |  | 490 |  |
| Receivables | 1,230 |  | 1,080 |  |
| Cash | 80 |  | 120 |  |
|  |  | 1,950 |  | 1,690 |
| Total Assets |  | 3,800 |  | 3,120 |
|  |  |  |  |  |
| Equity & Liability |  |  |  |  |
| Equity |  | 800 |  | 800 |
| Ordinary share capital |  | 1,310 |  | 930 |
| Retained earnings |  | 2,110 |  | 1,730 |
|  |  |  |  |  |
| Non Current Liabilities |  |  |  |  |
| 10% loan stock |  | 800 |  | 600 |
| Bank overdraft | 110 |  | 80 |  |
| Payables | 750 |  | 690 |  |
| Taxation | 30 |  | 20 |  |
|  |  | 890 |  | 790 |
|  |  | 3,800 |  | 3,120 |
|  |  |  |  |  |
| The following ratios are those calculated for XYZ Ltd based on published | | | | |
| accounts for the previous yr |  |  |  |  |
|  |  |  |  | XYZ Ltd |
| ROCE(Capital employed=equity and debentures) | | |  | 16.30% |
| Profit/sales |  |  |  | 3.90% |
| Asset Turnover |  |  |  | 4.19 |
| Current ratio |  |  |  | 2.14 |
| Quick ratio |  |  |  | 1.52 |
| Gross profit margin |  |  |  | 30.00% |
| Accounts receivable collection period | |  |  | 40 days |
| Accounts payable payment period | |  |  | 37 days |
|  |  |  |  |  |
|  |  |  |  |  |

***Required:***

Calculate comparable ratios (to two decimal places where appropriate) for XYZ Ltd for the year ended 30 April 2009. All calculations should be shown clearly *(17 marks)*

**HINT**: use 2008 comparative figures to help you calculate 2009 figures as the same formula applies.  **(Total 20 marks)**

**QUESTION 2**

1. Sankhulani is a banker by profession. She decides to venture into investments for her excess cash that she has in the current account with one of the banks. As an expert in the field of investments she approaches you as she has no clue of what investing in property is all about. She was advised by her husband, Mulanda, who asked her to seek investment advice from you.

You are required to critically explain in a more clear way on how this kind of investment is all about and whether she should still invest in property. *(12 marks)*

1. What are the merits and demerits of investing in hard assets (give **three** in each case).  *(6 marks)*
2. Contrast collectables from long-term inflation-hedge investments. *(2 marks)*

**(Total 20 marks)**

**QUESTION 3**

The Malawi Stock Exchange (MSE) has been in existence since 1994 but started Equity trading in November 1996 when it first listed NICO.

***Required:***

1. Mention **five** objectives of the MSE. *(10 marks)*
2. Name and describe the reasons why MSE exist. *(9 marks)*
3. List **two** other listed companies on MSE *(1 mark)*

**(Total 20 marks)**

**QUESTION 4**

1. Chipo Sikwese is a shareholder of one of the locally listed company on Malawi Stock Exchange. She holds shares in Illovo sugar company. What she knows is that Illovo produces sugar for both domestic and export. She is also aware of where the factories are situated. She became a shareholder through his son Sifwayo who had an idea of stock markets during the listing of the company through an IPO. As she was told that the shares have a market and that she can sell and realize some money she decides to dispose of some of her shares. She has no idea where to sell those shares to. She approached Mafoloto to buy those shares from her but unfortunately Mafoloto has no clue of what Chipo is talking about here. Fortunately you happen to be the friend to Mafoloto and she has asked you for your expert advice.
2. Explain what an IPO is *(1 mark)*
3. Differentiate primary, secondary and over-the-counter market and give an example on each.  *(6 marks)*
4. From the above which market will her shares be sold at and why.

*(3 marks)*

1. Describe the concept of futures trading and discuss **three** facilities provided by futures trading which are not available in respect of cash transactions. In addition list **three** characteristics of futures. *(10 marks)*

**(Total 20 marks)**

**END OF THE EXAMIN ATION PAPER**