



UNIVERSITY
OF
JOHANNESBURG

2017

National Annual Finance and Investment Management Olympiad

Paper 1

Duration: 2 hours

Questions: 60 multiple choice questions

Instructions

This question paper has 60 multiple choice questions. Please read each question carefully and circle your answer clearly on the answer sheet provided.

1. Only hand in your answer sheet /paper.
2. Each question contains three options (A, B and C) choose only one answer.
3. Use a 2B pencil to circle your answer on the answer sheet provided.
4. After completing all the questions, you may hand in your answer sheet to your educator.
5. You do not have to fill in a student number on the answer sheet.
6. Please write your school name in the "Course Code" blocks.

Good luck with the first round paper for the Finance and Investment Management Olympiad!!!!

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1. Which one of the following is NOT a component of the Code of Ethics?
 - a. Confidentiality
 - b. Integrity and Objectivity
 - c. Professional Competence and Due Diligence

2. With regards to the Standards of Professional Conduct, Standard 1 – Professionalism, Sponsors and Executives must...
 - a. not engage in any conduct involving dishonesty and fraud
 - b. knowingly make any misrepresentations
 - c. know and comply with only financial laws, rules, regulations and codes

3. With regards to the disclosure of Conflict, Sponsors and Executives must make full and fair disclosure...
 - a. to their employer and the JSE only
 - b. of matters that might reasonably be expected to impair their independence and not objectivity
 - c. of issues that create conflict with their obligations to their current clients or prospective clients

4. With regards to the Standards of Professional Conduct, Standard 3 – Duties to Clients, Sponsors and Executives must keep confidential all and any information pertaining to existing, former and prospective clients, unless:
 - a. The information relates to legal activity on the part of the existing, former or prospective client
 - b. Disclosure of the information is not required by law or in terms of the Listings Requirements
 - c. the existing, former or prospective client consents to the disclosure of the information

5. Which one of the following statements about liquidity is false?
 - a. Liquidity is also known as marketability and disposableness
 - b. Liquidity refers to the ability to trade a security with ease
 - c. Liquidity enables investors to rapidly adjust their portfolios in terms of size, risk, return, liquidity and maturity

6. Which one of the following is an economic function of secondary markets?
 - a. Liquidity and investment returns
 - b. Branch of primary market
 - c. Implementation of monetary policy

7. Which one of the following statements about volatility is most correct?
 - a. Financial assets can be extremely volatile
 - b. Investment risk is broadly defined as volatility in asset prices
 - c. Volatility in asset prices is measured in terms of changes market prices and rates.

8. Which one of the following is not an essential element of the investment environment?
 - a. Budget deficit
 - b. Interest rates
 - c. Financial assets

9. Which one of the following statements is most correct?
 - a. The primary market is the market for the issue of new securities in order to borrow money for consumption or investment purposes
 - b. The primary market is the market for the issue of new securities, which refers to shares only
 - c. The primary market is the market for the issue of new securities, which refers to bonds only

10. Paul wishes to invest R10 000 for a period of 5 years. Which of the following investments would be best for him?
- 6.7% p.a. simple interest
 - 6.5% p.a. compound interest with quarterly rests
 - 6% compound interest with daily rests
11. Which one of the following statements is false about additional participants who make use of the financial system?
- Brokers and dealers: are members of exchanges that facilitate the trade in financial instruments
 - Financial exchanges: allow the broker-dealers to facilitate trading in securities and create the mechanism for clearing and settlement of trades in a risk-minimising manner
 - Financial regulators: regulate and supervise only brokers and dealers in the financial system
12. In most countries, the largest holders of shares are...
- the retirement funds
 - the long-term insurers
 - all the above
13. Which one of the following statements is false about Price discovery?
- Price discovery is the route through which securities markets arrive at prices for the securities traded
 - Price discovery is important because it provides information that influences economic decisions
 - Price discovery also provides facts as to the prices that need to be offered on new issues of securities
14. Companies not only supply shares to the market, but they are permitted to purchase their own shares and hold them as "treasury stock".
- This statement is false
 - This statement is true
 - This statement is incomplete
15. Only financial intermediaries are allowed to buy and sell shares, bonds and derivatives.
- This statement is false
 - This statement is true
 - This statement is incomplete
16. Harry is the owner of Harry's Hardware, each year he deposits money into a fixed deposit account for one of his employees. How much must Harry deposit be at 12.5% interest for 120 days in order to earn R600.00 interest?
- R14 400
 - R14 600
 - R7200
17. Which one of the following statements is false about Speculators?
- They are also known as arbitrageurs
 - Most of them trade intra-day in order to avoid settlement outlays
 - They do not contribute to efficient price discovery
18. Which one of the following statements is true about the bid-offer spread?
- It represents the cost of trading and this is significant in the creation of liquidity
 - If the spread is narrow, the relevant market is said to be illiquid
 - If the spread is wide the market is liquid

19. The debt market is made up of...
- the Short-term debt market and Long-term debt market
 - the Medium-term debt market only
 - the Medium-term debt market and Long-term debt market
20. Amount of money today which is equal to series of payments in future, is also known as...
- nominal value of annuity
 - present value of annuity
 - future value of annuity
21. The objective of an investment is to increase the amount of the original investment by...
- earning a periodic cash flow
 - making a capital gain
 - All the above
22. Which one of the following statements about the effective rate is true?
- The effective rate of interest is the actual annual rate of interest taking into account the effect of compounding
 - If the bank increases the number of compounding periods, the amount earned on a deposit decreases. This implies that a higher effective interest rate (EIR) is being earned
 - If the bank decreases the number of compounding periods, the amount earned on a deposit increases. This implies that a higher effective interest rate (EIR) is being earned
23. You are quoted an interest rate of 10% compounded quarterly. What is the effective rate of interest?
- 9%
 - 10.4%
 - 10%
24. Loveness Baloyi plans to put her graduation money into an account and leave it there for 4 years while she goes to college. She receives R750 in graduation money that she puts it into an account that earns 4.25% interest compounded semi-annually. How much will be in Loveness's account at the end of four years?
- R887.40
 - R885.86
 - R3503.61
25. ABC Bank is offering to double your money. They say that if you invest with them at 6% interest compounded quarterly they will double your money. If you invest R1500 in the account, how long will it take to double your money?
- 11.64 years
 - 0.23 years
 - 1.97 years
26. An investor does not earn interest on reinvested interest, what type of interest is the investor receiving?
- He is receiving simple interest
 - He is receiving compound interest
 - He is receiving general interest
27. The foreign exchange market involves which of the following transactions?
- The buying and selling of foreign notes and coins only
 - Foreign deposits and investments only
 - All the above

28. The future value of a dollar that you invest today is:
- more than a dollar today
 - equal to a dollar today
 - less than a dollar today
29. A hedge fund ...
- is the same as an Index fund
 - is not similar to a pooled fund such as a unit trust and a retirement fund.
 - has less of the statutory limitations of the other collective investment schemes
30. A Put option allows the buyer to...
- sell the underlying asset at a predetermined price on or before the expiry of a specified period
 - buy the underlying asset at a predetermined price on or before the expiry of a specified period
 - swap payment obligations with another counter-party
31. Real investments have many characteristics that differentiate them from financial assets. Which one of the following is not a characteristic of Real Investments?
- Inflation hedge
 - Liquid markets
 - High transactions costs
32. Which of the following statements about the risk-free rate is true?
- The RFR is the lowest rate that can be earned with certainty
 - The RFR measured using the yield on non-government bond
 - The RFR always higher than the risk-premium on any investment
33. A 100g packet of chocolate costs R2.50. Assuming inflation averages 2.8% per annum over each of the next 3 years, how much will the chocolate cost in three years?
- R2.64
 - R2.87
 - R2.95
34. You want to buy an ordinary annuity that will pay you R4000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity is closest to...
- R39 272.
 - R40 000.
 - R80 000.
35. Over-the-counter (OTC) market forms are found in...
- Primary markets
 - Secondary markets
 - Both Primary and secondary markets
36. The central bank of South Africa (SARB) does all of the following except...
- set and implement monetary policy
 - maintain stability within the industry and protect financial consumers
 - manage and govern the financial services sector
37. In the event of the liquidation of the company....
- debt stand behind preference shares in the line-up for payment
 - ordinary shares stand behind the debt in the line-up for payment in companies
 - preference shares stand behind ordinary shares in the line-up for payment

38. Which of the following is not considered to be a category of commodities?
- Soft Commodities
 - Hard Commodities
 - Medimum Commodities
39. Which of the following is not a type of retirement fund?
- Defined Benefit Fund
 - Provident Fund
 - Annuity Fund
40. Sarah borrows R 5000 from her neighbour at an agreed simple interest rate of 12,5% p.a. She will pay back the loan in one lump sum at the end of 2 years. How much will she have to pay her neighbour?
- R6250
 - R5000
 - R5625
41. The exchange rate between two currencies can be defined as...
- the amount of one currency that must be paid in order to buy one unit of another currency
 - the difference between total exports and total imports in a country
 - the price at which the sales and purchases of foreign goods take place
42. Inflation risk and country risk are examples?
- Inflation risk and country risk are both examples of market risk and security-specific risk
 - Inflation risk and country risk are both examples of systematic risk and market risk
 - Inflation risk and country risk are both examples of market risk
43. Business risk and liquidity risk are examples of?
- Business risk and liquidity risk are both examples of security-specific risk
 - Business risk and liquidity risk are both examples of market risk
 - Business risk is an example of market risk while liquidity risk is an example of security-specific risk
44. Which one of the following statements about return is false?
- It is the sum of capital gains and dividends or interest
 - There is a positive relationship between risk and return
 - None of the above
45. Which one of the following statements about an annuity is true?
- Payments are only made annually
 - An annuity in which payments are made at the end of each period is an ordinary annuity
 - An annuity in which payments are made at the beginning of each period is an annuity overdue
46. A friend explains to you that there is a negative linear relationship between rainfall and the number of shoes she buys. What is your friend referring to?
- Correlation – which is the causal relationship between two variables
 - Correlation – which is the relationship between two variables
 - Correlation – which is the proportion of variance that two variables share
47. John invested a sum of money, which earned R750 simple interest at the rate of 6% per annum over 2 years. The amount invested was:
- R88.80
 - R6250
 - R3125

48. Calculate the annualised HPR, if the HPR for a 3-year investment is 30%.
- 9%
 - 10%
 - 13%
49. Share A has a standard deviation of 17% while Share B has a standard deviation of 25%. Which one of the following statements about Share A and B is true?
- Share B has a higher the percentage dispersion around the mean and, therefore, is a riskier investment compared to Share A
 - Share B has a higher the percentage dispersion around the mean and, therefore requires a lower return compared to Share A
 - Share A has a lower the percentage dispersion around the mean and, therefore, is a riskier investment compared to Share B

Use the following information to answer Question 50 and 51

| Year | HPR (%) |
|------|---------|
| 1 | 20 |
| 2 | 15 |
| 3 | 10 |
| 4 | -5 |
| 5 | -10 |

50. The average return for the share is?
- 6%
 - 7.5%
 - 10%
51. What is the historical standard deviation for the share?
- 11.6%
 - 13%
 - 15%
52. NNCDs and NCDs are issued by
- The private banking sector
 - The retail banking sector
 - The online banking sector
53. Which one of the following statements is false about the organisation of the financial markets?
- Spot markets are a market nature
 - Spot markets are a market type
 - Spot markets are also called cash markets
54. Which one of the following statements is false about a hedge fund manager?
- a hedge fund manager is able to sell leverage
 - a hedge fund manager is able to go "short" of securities
 - a hedge fund manager is able to engage in derivative transactions
55. The risk-free security has a beta equal to ... while the market portfolio's beta is equal to...
- one; more than one.
 - one; less than one.
 - zero; one.

56. A Rand return is divided by invested amount which is used for calculating the?
- rate of return
 - return amount
 - investment rate
57. A line that describes the relationship between an individual security's returns and returns on the market portfolio.
- characteristic line
 - security market line
 - capital market line
58. A portfolio is a:
- group of assets held by an investor
 - security that has a beta equal to the market beta
 - new issue of securities that are being offered to the public
59. Systematic risk is:
- a risk that affects a large number of assets.
 - the total risk inherent in an individual security.
 - also called diversifiable risk.
60. An exchange traded fund (ETF)...
- also called a low risk tracker fund
 - is a fund set up to track a particular share
 - an inexpensive way of gaining exposure to a relevant segment of the share market