

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INVESTMENTS (IOBM – AD310)**

**Date: Friday, 3rd May 2013**

**Time Allocated: 3 hours (08:00 – 11:00 am)**

**INSTRUCTIONS TO CANDIDATES**

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

2 Section A consists of 4 questions, each question carries 15 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 in this section

**QUESTION 1**

In investments one way of investing funds is through purchase of bonds. Discuss what the following terms are and in your discussion indicate who the issuer is, its pros and cons where applicable:

1. Corporate bonds *(5 marks)*
2. Municipal bonds *(5 marks)*
3. Government bonds *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Define negotiable certificate of deposits (NCD) and mention its **six** components.

*(5 marks)*

1. (i) Explain **four** reasons why it is important to have an active secondary market for

the NCDs. *(8 marks)*

1. Distinguish primary market from secondary market.  *(2 marks)*

**(Total 15 marks)**

**QUESTION 3**

Why are the following ratios so important in investments especially to investors and financial institutions?

1. Liquidity ratio  *(5 marks)*
2. Return on capital employed *(5 marks)*
3. Capitalization ratio *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Josh Corporation has just paid a dividend of MK450 per share. Annual dividends are expected to grow at a rate of 4% per year over the next four years. At the end of four years, shares of Josh Corporation are expected to sell for MK9000. If the required rate of return is 12%. What will be the intrinsic value of the share for Josh Corporation? *(8 marks)*
2. An analyst is attempting to value shares of Dickens Company. The company has just paid a dividend of 58t per share. Dividends are expected to grow by 20% next year and 15 percent the year after that. From the third year onwards, dividends are expected to grow at 5.60%per year indefinitely. If the required rate of return is 8.30%. What is the intrinsic value of the share? *(7 marks)*

(**Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** from this section

**QUESTION 5**

1. Describe the **four** phases of the business cycle. *(16 marks*)
2. Explain **two** factors that are the basic elements to the construction of market indices*? (4 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. What are capital markets and explain at least **four** additives it brings to the financial sector.*(10 marks)*
2. Discuss the drawbacks of capital markets and how they affect the investor.

*(10 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Define a Treasury Bill and mention **two** types of Treasury Bills available*. (6 marks)*

1. Mr. Masakata, a well-known entrepreneur, has approached you for assistance in investing in Treasury Bills. He specifically tells you that he wants a return of 16.30% for a 91 day paper.
2. What will be your advice on how he should find a tender price? *(5 marks)*
3. From the answer in (i) above derive what the discount rate will be? *(4 marks)*
4. What would be the actual yield Mr. Masakata will enjoy if his tender is successful? *(5 marks)* **(Total 20 marks)**

**QUESTION 8**

1. What is a value of a 5 year 7.40% coupon bond selling to yield 5.60% assuming the coupon payments is made semiannually?  *(12 marks)*
2. Calculate the value of a 5 year 5.80% annual coupon bond if the appropriate discount rate for discounting each cash flow is as follows:  *(8 marks)*

**Year Discount rate** (%)

1. 5.90
2. 6.40
3. 6.60
4. 6.90
5. 7.30

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**END OF EXAMINATION PAPER**