

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: PRINCIPLES OF INVESTMENTS – (IOBM – D209)**

**Date: Sunday, 13th May 2018**

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

**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 books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

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

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

An amount of k 15,000 is invested at the late 12% per annum for the period of one year

1. Calculate the value of an investment at the end of the period using;
2. Simple interest method  *(2marks)*
3. Quarterly compounded interest method *(3marks)*
4. Mention **two** reasons why computations in (a) above give different future values.

*(4 marks)*

1. Using future value factor method, calculate cumulative balance of an overdraft at the rate of 48%if the principal of K100,000 was left unpaid for a period of one year. *(3 marks)*
2. You plan to buy a land and a seller gives you a choice to either pay MK300,000 now or a negotiated deferred payment of MK 380,000 in a year time. Which option will you take given a ruling deposit rate of 15% per annum and a lending rate of 25%per annum. *(3 marks)*

**(Total 15 marks)**

**QUESTION 2**

The following figures are extracted from AB holding plc

Mk

Trade receivables 30,000

Cost of sales 175,500

Balance at bank 90,000

Trade payables 65,000

Telephone expenses 15,000

Commission income 25,000

Short term investment 85,000

Tax 40,000

Net profit after tax 60000, but included loan interest of 15,000

a) Mention any **four** techniques of analyzing financial statements.  *(4 marks)*

b) (i) Calculate working capital turnover ratio. *(3 marks)*

1. Describe the working capital turnover ratio. *(3 marks)*
2. Calculate interest coverage ratio. *(2 marks)*
3. If the company was to invite subscribers for its bond issue, explain whether you would take part in the subscription or not. *(3 marks)*

**(Total 15 marks)**

**QUESTION 3**

The following information was taken from two securities markets.

**Security market A**

Commission levy is 2%of investment value

Investor is likely to trade within two weeks of placing on order

Regulators release market information as and when they wish

Average participants per month 1,080,974

**Security market B**

Commission levy is 1.75% 0f investment value

Investor is likely to trade within two days of placing an order

Regulators release market information and dairy basis soon after trading session

Average participants per month 1,800,360

1. Which of the two markets will an investment manager choose for placement of client finds? *(1 mark)*
2. Explain **three** reasons for that choice. *(6 marks)*
3. Briefly explain any **three** reasons why comparison of the two markets` indices is of significance to an investment manager in making an investment decision. *(6 marks)*
4. Explain the role of secondary market in development of primary market. *(2 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Explain **three** reasons why an investor demands a return on invested funds.

*(6 marks)*

1. A professional investor will always perform valuation before deciding whether to buy the security or not. Discuss Bottom –up valuation approach.  *(9 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Find the market value of a zero coupon bond with face value of MK 7,500,000 maturing in 5 years’ time if the going rateis 19%. *(3 marks)*
2. Describe the difference between dirty bond price and clean bond price. *(10 marks)*
3. Explain risk of a bond and how an investor can avert it. *(4 marks)*
4. Why would a company prefer equity financing to debt financing? *(3 marks)*

**(Total 20 marks)**

**QUESTION 6**

Money market and stock market give investors alternative avenue for investment

1. compare security trading in money market and that of stock market, give **four**.

*(8 marks)*

1. Explain **three** indirect ways through which individuals participates in wholesale money markets. *(6 marks)*
2. You invested in A security which is to give an equal interest of MK1,500 at the end of each year for the next five years.

**Required:**

Calculate the total amount you will have at the end of year five if every interest received in invested at 8% per annum. *(6 marks)*

**(Total 20 marks)**

**QUESTION 7**

You are fund manager and a new client has asked for a meeting for potential investment deals. The terms below crop up in the meeting and the client needs explanations.

**Required:**

Give some notes on each of the terms to help the client understand.

1. Efficient frontier.  *(10 marks)*
2. Arbitrage pricing model.  *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Discuss **two** merits of investment diversification. *(8 marks)*
2. The table below is a representation of a portfolio for XYZ pension fund;

**Security Type Return (%) Proportion (%)**

Bond 10 45

Foreign Stock 15 35

Local Stock 13 20

1. Compute the expected return *(3 marks)*
2. Compute the portfolio variance *(5 marks)*
3. Discuss an advantage and a disadvantage of including foreign stock on one’s portfolio. *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**