

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: PRINCIPLES OF INVESTMENTS(IOBM – D203)**

**Date: Tuesday, 30th April 2013**

**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 20 multiple questions, each question 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 books 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 from this section.

**QUESTION 1**

(a) Explain the difference between the expected return and the required return.

*(5 marks)*

(b) List any **five** asset classes that can be included in an investment portfolio.

*(5 marks)*

(c) Mrs Phiri makes a single deposit today of K200 000.00. The deposit will be invested for 3 years at an interest rate of 10% per year compounded semiannually. What will be the future value of Mrs Phiri’s account at the end of 3 years? *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

(a) Mention and explain **three** fundamental principles of investment. *(6 marks)*

(b) Give **two** conditions that would apply for a market to be considered informationally efficient. *(4 marks)*

(c) How does a restrictive monetary affect the economy? *(5 marks)*

**(Total 15 marks)**

**QUESTION 3**

(a) Briefly outline the **five** steps you would follow to ensure that funds under your control as an investment manager are well managed. *(10 marks)*

(b) What is the present value of receiving a single amount of K500,000 at the end of three years, if the time value of money is 8% per year, compounded quarterly. *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

Describe **five** types of preference shares. **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Briefly discuss the **five** steps of the investment management process.

**(Total 20 marks)**

**QUESTION 6**

(a) Calculate the annual holding period return (HPR) and the holding period yield (HPY) for an investment that originally cost K1,000,000 and is worth K2,275 000 after 4 years. *(5 marks)*

(b) Given the information in the table below:-

**Asset A**

**Possible outcomes** **Probability** **Return**

Pessimistic 0.40 12

Most likely 0.30 16

Optimistic 0.30 13

**Total 1.00**

**Calculate;**

1. The expected return *(5 marks)*
2. The standard deviations of the returns for asset A *(5 marks)*
3. The coefficient of variation *(5 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Define the Efficient Market Hypothesis, its assumptions and implications.

*(10 marks)*

1. Differentiate between Horizontal analysis and vertical analysis as tools and techniques of financial statements analysis***.*** *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Define the Money market. *(3 marks)*
2. What is the difference between money market and bond markets?*(7 marks)*
3. Explain in details the following terms;
4. National Stock Exchange
5. Regional Exchange *(10 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**