

THE 1ST ANNUAL FINANCE AND INVESTMENT MANAGEMENT OLYMPIAD

FIMO Paper Round One

1. You have been provided with a question paper and an answer sheet.
2. The question paper consists of 60 multiple choice questions.
Duration of paper is 2 hours.
3. Answer all questions on the special answer sheet provided.
4. Each question shows **FOUR** alternative answers (A,B,C, or D).
5. Choose the correct answer to each question by marking ● on the answer sheet, using a pencil.
6. After completing question 60 you may hand in your answer sheet to your educator.
7. You do not have to fill in a student number on the answer sheet.
8. Please write your school name in the “Course code” blocks.

Good luck with the first round paper for the Finance and Investment Management Olympiad. You received a question paper as well as a red answer sheet.

1. In the _____ market, existing assets are exchanged between investors, while in the _____ market, participants buy their assets directly from the source of the asset.

- A primary; secondary
- B secondary; primary
- C tertiary; primary
- D primary; OTC

2. The term "arbitrage" refers to

- A buying low and selling high
- B short selling high and buying low
- C earning risk-free economic profits
- D negotiating for favourable brokerage fees

3. Which of the following is not a financial intermediary?

- A a bank
- B an insurance company
- C a real estate brokerage firm
- D a savings and loan company

4. Company X develops new surf forecasting software. It sells the software to Microsoft in exchange for 1000 shares of Microsoft common stock. Company X has exchanged a _____ asset for a _____ asset in this transaction.

- A real; real
- B financial; financial
- C real; financial
- D financial; real

5. _____ execute trades for people other than themselves and in _____ markets a computer matches orders with an existing limit order book and executes the trades automatically.

- A dealers; brokers
- B brokers; electronic
- C brokers; direct search
- D dealers; direct search

6. Financial markets have the basic function of

- A** bringing together people with funds to lend and people who want to borrow funds
- B** assuring that the swings in the business cycle are less pronounced
- C** assuring that governments need never resort to printing money
- D** both A and C of the above

7. Which of the following can be described as involving direct finance?

- A** a corporation's stock is traded in an over-the-counter market
- B** a pension fund manager buys commercial paper in the secondary market
- C** an insurance company buys shares of common stock in the over-the-counter markets
- D** none of the above

8. Financial markets improve economic welfare because

- i They allow funds to move from those without productive investment opportunities to those who have such opportunities
- ii They allow consumers to time their purchases better
- iii They weed out inefficient firms

- A** i and iii
- B** ii and iii
- C** i and ii
- D** i, ii and iii

9. Intermediaries who are agents of investors and match buyers with sellers of securities are called

- A** investment bankers
- B** traders
- C** brokers
- D** dealers

10. An investment advisor has decided to purchase gold, real estate, stocks, and bonds in equal amounts. This decision reflects which part of the investment process?

- A** asset allocation
- B** investment analysis
- C** portfolio analysis
- D** security selection

11. Which of the following are not traded on the money market?

- A negotiable certificate deposits
- B central bank securities
- C derivatives
- D short-term securities

12. Which of the following is a capital market instrument?

- A NNCD's
- B central bank securities
- C a certificate of deposit
- D 1000 shares in microsoft

13. Newly issued financial instruments with maturities shorter than one year will be on which markets?

- I. capital markets
- II. money markets
- III. primary markets
- IV. secondary markets

- A option I and III
- B option II and IV
- C option II and III
- D option I and IV

14. Which of the following are have aspects of primary markets?

- A the over-the-counter stock market
- B the Johannesburg Stock Exchange
- C the Bond Market
- D none of the above

15. Which of the following options are classified as currency?

- A cheques and savings deposits
- B paper money, coins, cheques, and savings deposits
- C paper money and cheques
- D paper money and coins

16. Financial instruments with maturities of more than one year are traded in the

- A derivative market
- B capital market
- C money market
- D equity market

17. Which of the following is not a participant in the financial system:

- A brokers and dealers
- B credit rating agencies
- C financial regulators
- D none of the above

18. Which of the following are long-term financial instruments?

- A a NNCD
- B a ten year loan
- C an Australian Treasury Bill
- D a one month money market instrument

19. Which one of the following is a soft commodity?

- A gold
- B steel
- C sugar
- D diamonds

20. Which one of the following does not form part of the derivatives market?

- A forwards
- B futures
- C forex
- D swaps

21. Portfolio management involves all of the following except?

- A stock selection
- B asset allocation
- C earning a periodic cash flow
- D allocating funds between risky and non-risky assets

22. Which of the following assets is credit risk-free?

- A one-day treasury bill
- B eskom share
- C 10 year Corporate Bond
- D buying a house

23. If the one year return on a share is 10% and the market risk premium is 3%, the risk -free interest rate is closest to?

- A 3%
- B 7%
- C 10%
- D the information provided is insufficient to determine the risk-free interest rate

24. Together, consumption expenditure (C) and investment expenditure (I) represent?

- A GDP
- B GDE
- C TAB
- D DBC

25. What is the relation between risk and return?

- A linear
- B negative
- C positive
- D inverse

26. If you bought a share for R25 in April 2014 and the company paid a dividend of R1.00 per share over the last year, what will the holding period return for the share be if you sold the share on 31 March 2015 for R27?

- A 4%
- B 8%
- C 10%
- D 12%

27. Which of the following is not a component of security specific risk?

- A interest rate risk
- B business risk
- C financial risk
- D liquidity risk

28. Standard deviation is a measure of?

- A dispersion around the median
- B dispersion around the arithmetic mean
- C dispersion around the geometric mean
- D dispersion around the mode

Use the information in the following table to answer the next two questions.

The table shows the holding period returns on a share for 4 years.

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

29. The average return for the share is?

- A 10%
- B 15%
- C 20%
- D 25%

30. What is the historical standard deviation for the share?

- A 9.35%
- B 9.85%
- C 10.80%
- D 10.58%

31. One year ago you deposited R1 000 in a savings account which paid interest at 5.75%p.a. If inflation over the last year was 6.1%, what was approximate real interest rate over the year?

- A 11.85%
- B -0.35%
- C 5.75%
- D 6.10%

32. A bank is offering interest at 5.5% p.a. If you deposit R1 000 in the bank today and the bank pays simple interest, how much interest will you have earned in 2 years?

- A** R 55.00
- B** R102.50
- C** R110.00
- D** R155.00

33. If interest is quoted as 12%p.a. compounded semi-annually, what is the nominal interest rate?

- A** 6.00%
- B** 6.09%
- C** 12.00%
- D** 12.36%

34. Calculate the effective annual rate of interest if interest is paid at 8%p.a., compounded quarterly?

- A** 8.00%
- B** 8.24%
- C** 8.16%
- D** 8.21%

35. Your favourite aunt wants to give you R1 000 today or she is willing to give you R1 200 in two years' time. What rate of interest over the next year will make you indifferent to taking R1 000 today or R1200 in two years?

- A** 9.54%
- B** 10.00%
- C** 10.25%
- D** 20.00%

36. You want to invest R4 250 in a bank account for the next 6 years. If your deposit has grown to R8750 at the end of the period, the rate that the bank has offered you is closest to?

- A** 10.50%
- B** 11.65%
- C** 12.80%
- D** 13.45%

37. You want to buy a car for R10 000. If you have R5 000 to invest today at 9.5%p.a., approximately how many years will you have to wait before you can afford to buy the car?

- A 6 years
- B 7 years
- C 8 years
- D 9 years

38. You have R1 000 to invest today. If the bank is willing to pay you interest at 5.75%p.a. for the next 5 years, how much of interest will you have earned over the 5 year period?

- A R287.50
- B R322.52
- C R291.55
- D R345.00

39. If you want to accumulate R25 000 in 10 years' time, how much must you deposit in an account today if the account pays interest at 10%p.a.?

- A R9 638.58
- B R9 422.24
- C R9 575.25
- D R9 310.75

40. Your uncle has agreed to pay R1 000 at the end of every year for the next 3 years towards your school fees. If interest rates are constant at 12%p.a. for the next 3 years, how much will your uncle's payments be worth today?

- A R2 401.83
- B R2 490.25
- C R2 690.05
- D R2 789.12

41. How much will you be willing to pay for an ordinary annuity that pays R500 per year for the next 10 years if interest rates are currently 8.5%p.a.?

- A R3 185
- B R3 280
- C R3 320
- D R3 355

42. What is the future value of R3 500 deposited for 12 years at 5%, compounded annually?

- A** R6 285.50
- B** R3 679.07
- C** R5 709.94
- D** R6 369.47

43. What is the future value of R3 500, deposited for 12 years at 5%p.a. compounded semi-annually?

- A** R6 285.50
- B** R3 679.07
- C** R5 709.94
- D** R6 330.54

44. You plan to borrow R400 000 and repay it in 20 equal installments at the end of each of the next 20 years. If the bank will be charging you 9.25%p.a., how much will you repay each year?

- A** R43 818.59
- B** R44 601.95
- C** R45 390.68
- D** R46 184.70

45. How much should you pay for an investment that pays R1 500 per year for the next three years and then R2 000 per year for the following two years? Assume a discount rate of 15% per year?

- A** R8 500.00
- B** R5 562.70
- C** R6 338.15
- D** R9 500.00

46. If you placed R100 into a savings account that paid a simple interest rate of 5% per year that was guaranteed, what amount would you have in the account at the end of the first year? Ignore transaction costs.

- A** an amount less than R105
- B** exactly R105
- C** an amount more than R105
- D** unable to determine as you need more information

47. In which situation will it be financially to your benefit to borrow money in order to purchase a product now that will need to be repaid at a future date with income earned in the future?

- A there is no situation where this is not to your benefit
- B when the interest that you pay on the loan is more than the interest that you will receive from a savings account
- C when the product is on sale for a short period of time and you are not sure when it will be going on sale again
- D when purchasing a product on a credit basis results in an individual getting paid salary that is better for them

48. When you need to choose between two products that you would like to buy, you should do the following:

- A Choose the product that gives you the most benefit
- B Choose the cheapest product
- C Choose the product only after you have compared the costs and benefits of both products
- D Choose the product that is the easiest to get

49. Before an individual goes to the shops and buys something on credit, they need to consider if they can afford the item or not?

- A disagree
- B neutral in your decision
- C agree
- D affordability does not need to be considered when buying on credit

50. If you placed R100 into a savings account that paid a compound interest rate of 5% per year that was guaranteed, what amount would you have in the account at the end of the first year? Ignore transaction costs.

- A an amount less than R105
- B exactly R105
- C an amount more than R105
- D unable to determine as you need more information

51. If you are provided an opportunity to make a large amount of money, there is a possibility that you can lose a large amount of money as well?

- A this is correct
- B this is not correct
- C the opportunity to make money is not linked to the possibility it losing money
- D unable to determine

52. If the interest rate that you receive in a savings account is 3.5% per year and the inflation is 4% a year. The amount of money in terms of purchasing power that you would have in the account after one year, would be?

- A** you would have exactly the same amount of money
- B** you would have more money in one years' time in terms of purchasing power when taking inflation into account
- C** you would have less money in one years' time in terms of purchasing power when taking inflation into account
- D** you cannot determine the implication

53. The resources used in the production of goods and services are limited from an economic perspective, so the society needs to:

- A** decrease the amount of resources that they use
- B** try to create or obtain more resources
- C** make decisions about how to use the resources
- D** increase the amount of resources that they use

54. If you receive an income of R50 000 a year and the inflation rate is currently 4%, how much income will you need to obtain in 3 years' time in order to be able to maintain your current living standard?

- A** less than R50 000
- B** R50 000
- C** more than R50 000
- D** unable to determine as you need more information

55. In accounting, when reference is made to an Economic event it relates to:

- A** the bank statement
- B** a transaction
- C** cash
- D** all of the above

56. The basic accounting equation is:

- A** assets = capital + liabilities
- B** assets = capital – liabilities
- C** assets = income + expenses
- D** assets = Capital + expenses

57. Accounting refers to:

- A** the use of financial data
- B** the collection of financial data
- C** the use and collection of financial data
- D** the use and collection of both financial data and non-financial data

58. In Economics, a market can be described as:

- A** a location to purchase things
- B** a location to sell things
- C** a place where the buyers and sellers meet
- D** the process in which the prices of goods are adjusted in order to reconcile them with the allocation of resources

59. The official current unemployment rate in South Africa is closest to?

- A** 7.4%
- B** 19.2%
- C** 24.3%
- D** 32.9%

60. Who is the current Minister of Finance in South Africa?

- A** Trevor Manuel
- B** Pravin Gordhan
- C** Gill Marcus
- D** Nhlanhla Nene

END