

# Tutorial Letter 101/3/2018

**Banking III**

**BAN3701**

**Semesters 1 & 2**

**Department of Finance, Risk Management and  
Banking**

**IMPORTANT INFORMATION**

Please register on myUnisa, activate your myLife e-mail addresses and make sure that you have regular access to the myUnisa module website, BAN3701-2018-S1/S2, as well as your group website.

Note: This is an online module and therefore it is available on myUnisa. However, in order to support you in your learning process, you will also receive some study material in printed format.

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**Please note / important notes:**

Please register as a user of myUnisa as soon as possible. It is free of charge. Visit <https://my.unisa.ac.za> for details. At myUnisa you will be able to get in touch with fellow students, submit your assignments, update your details, as well as participate in discussion forums.

It is also important that you provide Unisa with your cellular number because important announcements may be sent to you by sms.

It is **highly recommended** that you use a non-programmable financial calculator in order to perform the calculations required. Thus do not use a scientific calculator. Refer to Section B of the frequently asked questions (faq's) for detail regarding calculators. It remains the student's responsibility to master the use of the calculator.

**Please note**

This is an online module. Lectures and other relevant study material will also be posted under 'Additional resources' on myUnisa.

Please note that the Diploma in Banking and BCom in Banking are phasing out and the last year for new student registrations will be 2017. This module (BAN3701) forms part of these qualifications and students will have until 2024 in order to complete all the modules required for their degree/diploma.

# 1 INTRODUCTION AND WELCOME

Dear Student

Welcome to the module for Banking III (BAN3701).

You have enrolled for an interesting, yet challenging module.

Please note that the module will be offered in English only.

Also note that BAN3701 is a fully online module – refer to the modules' myUnisa site.

## 1.1 Tutorial matter

Your tutorial matter for Banking III (BAN3701) consists of the following:

- A SG001 for Banking III (BAN3701), which contains the study material for the module.
- A tutorial letter detailing the solutions to the assignment questions of BAN3701 will be available shortly after the closing date of the second assignment. This tutorial letter will only be available online on myUnisa and will not be posted to you.
- Additional resources provided at <https://my.unisa.ac.za>

In order to pass the module you will have to devote a set amount of dedicated time reading and summarising, as well as practicing the calculations. It is imperative that you start as soon as you receive your study material so that you have ample time to work through all the study units and do your assignments properly.

This tutorial letter contains important information on the assignments you need to complete, due dates, your study material, the prescribed books that you will have to obtain and information on your exam. Please read this tutorial letter carefully and consult it when working through the study units in preparation for the assignments as well as the examination.

Please ensure that you read all the tutorial letters that you receive during the year as they always contain important or urgent information.

Some of this tutorial matter may not be available when you register. Tutorial matter that is not available when you register will be posted to you as soon as possible, but is also available on myUnisa.

## 1.2 To get started on myUnisa

Because this is a fully online module, you need to go online to see your study materials and read what to do for the module. Go to the website here: <https://my.unisa.ac.za> and login with your student number and password. You will see [BAN3701-18-S1/2] in the row of modules in the orange blocks across the top of the webpage. Remember to also check in the -more- tab if you cannot find it in the orange blocks. Click on the module you want to open.

You will receive this tutorial letter and a printed copy of the online study material for your module. While the printed material may appear different from the online study material, it is the same, as it has been copied from the myUnisa website.

We wish you much success in your studies!

## 1.3 Resources

### 1.3.1 *Joining myUnisa*

If you have access to a computer that is linked to the internet, you can quickly access resources and information at the University. The myUnisa learning management system is the University's online campus that will help you communicate with your lecturers, with other students and with the administrative departments at Unisa – all through the computer and the internet.

You can start at the main Unisa website at <http://www.unisa.ac.za> and then click on the myUnisa orange block. This will take you to the myUnisa website. To go to the myUnisa website directly, go to <https://my.unisa.ac.za>. Click on the **Claim UNISA Login** on the right-hand side of the screen on the myUnisa website. You will then be prompted to give your student number in order to claim your initial myUnisa details as well as your myLife e-mail login details.

For more information on myUnisa, consult the brochure **Study @ Unisa**, which you received with your study material.

### 1.3.2 *Other resources – printed support material*

Because we want you to be successful in this online module, we also provide you with some of the study material in printed format. This will allow you to read the study material even if you are not online.

The printed study material will be sent to you at the beginning of the semester, but you do not have to wait for it before you start studying – you can go online as soon as you have registered and find all your study material there. The material we will send you is an **offline** copy of the formal content for the online module. Having an offline copy will enable you to study for this module **WITHOUT** having to use the internet or to go to an internet café. It will save you time and money, and you will be able to read and re-read the material and start doing the activities.

It is very important that you log in to myUnisa regularly. We recommend that you log in at least once a week or every 10 days to do the following:

- **Check for new announcements.** You can also set your myLife e-mail account to receive the announcement e-mails on your cellphone.
- **Do the Discussion Forum activities.** When you do the activities for each unit, we want you to share your answers with the other people in your group. You can read the instructions and even prepare your answers offline, but you will need to go online to post your messages.
- **Do other online activities.** For some of the unit activities you will need to post something on the **Blog**, take a quiz or complete a survey under the **Self-Assessment** tool. Do not skip these activities because they will help you complete the assignments and the activities for the module.

We hope that by giving you extra ways to study the material and practise all of the activities, this system will help you succeed in the online module. To get the most out of the online course you **MUST** go online regularly to complete the activities and assignments on time.

Remember, the printed support material is back-up material for everything that is found online on myUnisa. It does not contain any extra information. **In other words, do NOT wait for the printed support material to arrive before you start studying.**

## 2 PURPOSE OF AND OUTCOMES FOR THE MODULE

### 2.1 Purpose

The purpose of this module is to introduce topics and knowledge related to investment management. Topics that will be covered include the investment process, investment instruments, the concept and relationship of risk and return, fundamental analysis, technical analysis, futures markets, options markets and the compilation of an individual investor's investment portfolio.

## 2.2 Outcomes

On completion of this module you should be able to understand a number of financial and investment principles and have knowledge of the investment environment as well as the various factors that influence investment decision making.

## 3 LECTURERS AND CONTACT DETAILS

### 3.1 Lecturers

Any enquiries of an **academic nature** concerning this module, such as an enquiry about a specific calculation in the prescribed book, may (during office hours) be directed to:

**Primary:** Ms E Botha email: bothae2@unisa.ac.za  
012 429 4466  
AJH van der Walt 5-102

**Secondary:** Details of the secondary lecturer will be available on myUnisa at the beginning of the semester

The lecturer for this module will be available to take phone calls on academic matters and/or to attend to students who may prefer to visit personally for academic engagement (please make an appointment via email beforehand to ensure the availability of the lecturer you are coming to see).

Please note that the following information is required in order to assist you:

- Topic & **Module code**.
- Definition of the problem/concern.
- Your suggested solution/understanding of the problem.
- Student number.

Please note that email is the preferred communication method, and that responses via this communication channel are both efficient and quick.

Please provide your student number when contacting the University.

You may also want to discuss certain topics with one another using the discussion forum on myUnisa (<https://my.unisa.ac.za>).

### 3.2 Department

This module is offered by academic staff members from the Department of Finance, Risk Management and Banking (DFRB). **Administrative queries may be directed to the appropriate department as indicated in the *Studies @ Unisa* brochure.** Examples of administrative queries are registration matters, study material matters, account queries and graduation issues.

### 3.3 University

To contact the university, follow the instructions in the ***Studies @ Unisa*** brochure. Remember to keep your student number at hand when contacting the university.

## 4 MODULE-RELATED RESOURCES

### 4.1 Prescribed books

You must acquire the following prescribed book:

Bodie, Z., Kane, A. & Marcus, A.J. 2010. Essentials of Investments. 8<sup>th</sup> ed. McGraw-Hill.

(ISBN 978-007-131125-6)

Note that the 7<sup>th</sup> or 9<sup>th</sup> edition of the prescribed book can also be used.

Please refer to the list of official booksellers and their addresses in the **Studies @ Unisa** brochure.

## 4.2 Additional Resources

Please refer to myUnisa for possible additional resources and requirements pertaining to this module.

## 5 STUDENT SUPPORT SERVICES FOR THE MODULE

Important information appears in your **Studies @ Unisa** brochure.

### Predatory providers of classes and examination support

Please be aware of the existence of multiple fraudulent and predatory providers of classes and examination guidance to Unisa students. Please note that Unisa do not have agreements with any of these agencies/schools/colleges to provide tuition or support to our students. Unisa also do not provide these predators with study material, guidelines or your contact information.

These providers may not have the necessary expertise to assist you and often charge exorbitant fees. If you receive an invitation from any agency or College, it is best to confirm with your lecturer if the provider is a legitimate Unisa partner.

### TVET Agreements

Unisa, however, have agreements with a number of TVET Colleges to provide contact tuition and support for students in the following Higher Certificates:

- Higher Certificate in Economic & Management Sciences
- Higher Certificate in Banking
- Higher Certificate in Tourism
- Higher Certificate in Accounting Sciences

More information on this is available on the Unisa website.

## 6 MODULE-SPECIFIC STUDY PLAN

Use your **Studies @ Unisa** brochure for general time management and planning skills.

## 7 ASSESSMENT

### 7.1 Assessment plan

Assignments are seen as part of the learning material for this module. As you do the assignment, study the reading texts, consult other resources, discuss the work with fellow students or tutors or do research, you are actively engaged in learning. Paying attention to the assessment criteria for each assignment will help you to understand what is required of you more clearly.

You may submit written assignments and assignments done on mark-reading sheets either by post or electronically via myUnisa. Assignments may not be submitted by fax or e-mail. For detailed information and requirements as far as assignments are concerned, see the brochure **Studies @ Unisa** that you received with your study material.

### Compulsory assignments

There are two compulsory assignments for this module. There are non-negotiable submission deadlines for each of the assignments of this module and you must submit your assignments if you wish to gain entry to the examination. Both assignments contribute to your year mark.

#### Year marks

Your year mark, based on the mark obtained for the two assignments, contributes 20% towards your final mark, while your examination mark contributes 80%.

Assignment 01 contributes 20% towards your year mark while assignment 02 contributes 80% towards your year mark.

The combined weighted average of your year mark and examination mark must be 50% or higher for you to pass the module. However, you must obtain a minimum of 40% in the examination, regardless of your year mark. If you obtain less than 40% in the examination your year mark will not be taken into account and you will fail.

#### For example:

Assignment 01 mark = 60% and 20% of the assignment mark = 12%

Assignment 02 mark = 50% and 80% of the assignment mark = 40%

Year mark = 52% (12% + 40%)

Assume an examination mark of 50% and 80% of the examination mark = 40%

$$\begin{aligned}\text{Final mark} &= (20\% \text{ Year mark}) + (80\% \text{ examination mark}) \\ &= 10.4\% + 40\% \\ &= 50.4\%\end{aligned}$$

You will need a final mark of at least 40% in order to qualify for a supplementary examination.

For general information and requirements as far as assignments are concerned, see the brochure **Studies @ Unisa**, which you received with your study material.

## 7.2 General assignment numbers

Assignments are numbered consecutively per module, starting from 01.

### 7.2.1 Unique assignment numbers

Each assignment has been allocated a unique number in order to identify it in the Unisa assessment plans. Please ensure you always indicate the correct unique number when submitting assignments.

### 7.2.2 Due dates for assignments

Semester #	Assignment #	Due Date
Semester 1	Assignment 01	14 March 2018
	Assignment 02	4 April 2018



Semester 2	Assignment 01	10 August 2018
	Assignment 02	28 August 2018

As indicated earlier, you should preferably submit your assignments at <https://my.unisa.ac.za> prior to the due date of each assignment.

**Do not wait until the day just prior to the due date. Technical problems with the computer servers of myUnisa may prevent you from submitting your assignment at the last minute.**

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- **Special Notice:** Assignments received after/past the due date will be either penalised (as decided on by the lecturer) or not marked !!!
  - Assignments received after the solutions have been made available will receive 0%.
- 

Please ensure that your assignments reach the Unisa main campus by the due dates should you not be able to submit your assignments at myUnisa and need to mail us your assignments in hard copy format. Requests for extension of due dates for assignments will not be granted. These due dates have been set to allow you sufficient time for the completion of other assignments and your preparation for the examination.

Information about whether Unisa has received your assignment and the mark attained for an assignment can be obtained from <https://my.unisa.ac.za>.

### 7.3 Submission of assignments

Students must submit written assignments electronically via myUnisa. Assignments may not be submitted by fax or e-mail and assignments may not be submitted directly to the lecturer. **Assignments submitted via myUnisa, must be in PDF format** to enable on-screen marking.

**NOTE** – assignments received in excel, zip or other compression formats and any format that is (write) protected will not be marked and will receive 0%.

If you are using a mark-reading sheet for Assignment 01, remember to:

- use an HB pencil,
- indicate your student number and the above-mentioned unique number on the mark-reading sheet,
- follow the instructions for completing mark-reading sheets. Incomplete mark-reading sheets will be returned to you unmarked,
- submit the assignment in good time. It must have reached the Unisa Main Campus by the above-mentioned date. Otherwise it might not be in time to be marked by the Assignment Section.

For detailed information on assignments, please refer to the **Studies @ Unisa** brochure, which you received with your study package.

To submit an assignment **via myUnisa:**

- Go to myUnisa at <https://my.unisa.ac.za>
- Log in with your student number and password.
- Select the module.
- Click on assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

Assignments submitted via the post should be addressed to:

**Assignments**  
**PO Box 392**  
**UNISA**  
**0003**

#### 7.4 Format of assignments and special instructions

The following is the required format for the assignments – **NOTE: non-compliance to these requirements will result in penalisation (as determined by the lecturer).**

Font:	Arial 12 point
Line spacing:	1.5 lines
Left and right margins:	2.54cm
Top and bottom margins:	2.54cm
Orientation:	Portrait layout (Do NOT use landscape)
Question numbers:	Use the same question numbers, and sub-numbers as per the assignment.  Incorrect numbering will <u>not be tolerated</u> and will thus <u>not</u> be marked.

#### **Other important information:**

Timeliness (due dates):	Late assignments will be either penalised (10%) or not marked, thus it is recommended that assignments are submitted early enough in order to be received in time.
Neatness/Presentation/Quality:	<ul style="list-style-type: none"><li>• Students should take care in the presentation quality and neatness of their assignments.</li><li>• If assignments are hand written, handwriting should be readable. Non-readable writing cannot be allocated marks.</li><li>• Students must submit the original work and NOT photocopies (<i>as the quality is often poor and this practice may also encourage handing in another students work</i>)</li></ul>
Format:	<ul style="list-style-type: none"><li>• Use headings appropriately</li><li>• Appropriate use of bullet-points when required.</li></ul>
Referencing:	<ul style="list-style-type: none"><li>• If the module/assignment requires referencing or the acknowledgement of sources, the Harvard referencing style</li></ul>

	<p>should be correctly and appropriately used in the text while a bibliography should also accompany the assignment.</p> <ul style="list-style-type: none"> <li>• Tables, diagrams and graphs should always include references.</li> <li>• Refer to TL301 for information regarding the Harvard referencing style.</li> </ul>
Graphs/ Diagrams/ Tables:	<ul style="list-style-type: none"> <li>• Axes should be labeled/named at all times.</li> <li>• Tables, diagrams and graphs should always include references.</li> </ul>
Plagiarism:	<ul style="list-style-type: none"> <li>• Will result in a mark of zero for the assignment.</li> <li>• Potential disciplinary proceedings (according to university rules).</li> </ul>
Working together on assignments:	<ul style="list-style-type: none"> <li>• Although students may work together when preparing assignments, each student must write and submit his or her own individual assignment.</li> <li>• Thus, you must submit your own ideas in your own words.</li> <li>• It is <u>unacceptable</u> for students to submit identical assignments on the basis that they worked together. It is regarded as copying (a form of plagiarism) and <u>none</u> of these assignments will be marked. Furthermore, subjected to disciplinary proceedings by the university.</li> </ul>
Photocopies	<ul style="list-style-type: none"> <li>• Note that photocopied assignments are not allowed.</li> </ul>
Format	<ul style="list-style-type: none"> <li>• <b>Assignments submitted via myUnisa, <u>must be in PDF format</u> to enable on-screen marking.</b></li> </ul> <p><b><u>NOTE</u> – assignments received in excel, zip or other compression formats and any format that is (write) protected will not be marked and will receive 0%.</b></p>

**Special Notice:** it is important that all the questions of the assignments are answered. Due to time constraints, we may not mark all the questions of the assignment, which may impact the overall mark negatively if you have not completed all the questions.

Thus, question not attempted will be penalised, and thus affect your mark negatively – it is thus imperative that you attempt/complete all questions.

## 8 EXAMINATION

Examination admission will be granted to all students who submit the compulsory assignments. Students who do not submit an assignment by the due date will NOT be allowed to write the examination.

This module is a semester module, meaning that there are two registrations per year. If you registered for the 1<sup>st</sup> semester your examination will held in May/June 2018, while the supplementary examination (if applicable) will take place in October/November 2018. If you registered for the 2<sup>nd</sup> semester your examination will take place during October/November 2018 and the supplementary examination (if applicable) will take place during May/June 2019.

The provisional examination dates as determined by the examination department can be found at <https://my.unisa.ac.za>

The examination paper for BAN3701 may consist of four sections which may include sections dedicated to multiple choice questions, true and false questions, short essay question, calculations and a section with somewhat longer essay type questions. **Final clarification on the format of the examination paper will be communicated via myUnisa.** Note that no formulae are provided in the examination paper.

A student must attain a mark of at least 40% in order to qualify for admission to the supplementary examination.

## 9 FREQUENTLY ASKED QUESTIONS

Frequently Asked Questions (FAQ's) will be available on myUnisa while the **Studies @ Unisa** brochure contains an A-Z guide of the most relevant study information.

## ANNEXURE A: SEMESTER 1 - ASSIGNMENT 01

**NOTE: Use a Mark Reading Sheet to complete this assignment.**

**Due date:** 14 March 2018

**Unique number:** 702774

### **Section A – Multiple Choice Questions**

**(10)**

***Indicate the correct answer by choosing one option only***

1. Which of the following can be classified as a financial asset?
  - (1) House.
  - (2) Shares.
  - (3) Equipment.
  - (4) Vehicle.
  
2. Security analysis refers to which of the following?
  - (1) The allocation of an investment portfolio across different asset classes.
  - (2) The exercise of attempting to identify mispriced securities.
  - (3) The allocation to specific shares within each asset class.
  - (4) The process by which the value of a security is determined.
  
3. Which of the following is not classified as a money market instrument:
  - (1) Treasury Bills
  - (2) Bankers' Acceptance
  - (3) Federal agency debt
  - (4) Commercial papers
  
4. What does the acronym LIBOR stand for?
  - (1) London Interbank Agreed Rate.
  - (2) London Interbank Acceptance Rate.
  - (3) Local Interbank Offer Rate.
  - (4) London Interbank Offer Rate.
  
5. Which of the following risks are most closely associated with 'the ease at which a security can be sold without a significant loss'.
  - (1) Market risk.
  - (2) Credit risk.
  - (3) Liquidity risk.
  - (4) Exchange rate risk.
  
6. A share has a beta of 0.70. This means ...
  - (1) nothing in terms of the shares' responsiveness compared to the market.
  - (2) that the share is 70% more responsive than the market.
  - (3) that the share is 30% less responsive than the market.
  - (4) that the share is 70% less responsive than the market.

7. What would the most likely action of an investor or trader be if a Capital bank share is currently trading at R135.00 and the share is being valued at R122.00.
- (1) Practice the sell rule
  - (2) Practice the buy rule
  - (3) Practice the don't trade rule
  - (4) Cannot be determined.
8. A weak rand has the following affect:
- i. It is to the advantage of South African exporters.
  - ii. It is to the advantage of South African importers.
  - iii. It is to the disadvantage of South African importers.
  - iv. It is to the disadvantage of South African exporters.
- (1) i only.
  - (2) i and iii.
  - (3) iv only.
  - (4) ii and iv.
9. In times of low interest rates, investors may wish to:
- (1) Decrease their shareholdings
  - (2) Increase their cash holdings
  - (3) Increase their share holdings
  - (4) Do nothing
10. Hedgers who own commodities of financial instruments and are concerned about possible decrease in these goods' prices can...
- (1) buy futures contracts to protect themselves against future price decreases.
  - (2) buy futures contracts to protect themselves against losing future value.
  - (3) sell futures contracts to protect themselves from losing future value.
  - (4) buy and sell futures contracts in order to protect themselves from future prices increases and price decreases

**Section B – True or False**

**(5)**

**MARK (1) FOR TRUE, AND (2) FOR FALSE**

- 11 A closed-end fund issues or redeems its shares at net asset value (NAV).
- 12 A negative relationship exists between the prices of fixed-income securities and interest rates. Thus the price of fixed-income securities will increase when interest rates increase
- 13 Country risk can be considered to be a systematic risk.
- 14 Eurobonds are generally denominated in US Dollars (\$).
- 15 There is no diversification benefit if the covariance between two securities is negative.

**TOTAL MARKS**

**[15]**

## ANNEXURE B: SEMESTER 1 - ASSIGNMENT 02

**Due date:** 04 April 2018

**Unique number:** 587084

### Question 1 (5 marks)

The following information relates to a share of Dill Technologies Ltd.

State of the Economy	Probability	Return
State 1	0.30	13%
State 2	0.35	8%
State 3	0.15	2%
State 4	0.20	4%

Given the information about a particular share (above), calculate the following:

- 1.1 Calculate the expected rate of return  $[E(r)]$  of the share. (2)
- 1.2 Calculate the standard deviation ( $\sigma$ ) of the share. (3)

### Question 2 (5 marks)

- 2.1 An investor invests \$1120 at the beginning of the year. During the year the investor receives a dividend of \$152.25. At the end of the year the investment is worth \$1358. Calculate the holding period return for the year that the investor received. (2)
- 2.2 Indicate whether the market/share is in Contango or Backwardation? (1)

Commodity	Spot Price	Forward Price	Contango/ Backwardation
Anglo	R333.52	R331.26	(2.2.1)
White Maize	\$1165.57	\$1175.57	(2.2.2)

- 2.3 Given the information of a specific share for 2016 below, what effect would an increase in the dividend pay-out ratio to 0.45 along with a decrease in the expected growth rate ( $g$ ) of 0.02 and an increase in the required rate of return ( $k$ ) to 0.16 have on the P/E ratio (in 2016). You are required to show all calculations regarding the new P/E ratio for 2017. (2)

Information for 2016	
Dividend pay-out ratio	0.4
Required rate of return ( $k$ )	0.12
Expected growth rate of dividends ( $g$ )	0.08

### Question 3 (5 marks)

- 3.1 A call option has an exercise price of R123. Currently the underlying asset is trading at R126.25. What is the intrinsic value of this option currently, and state whether this option is on or out-of-the-money? (2)

- 3.2 African Bank is expected to have a dividend growth rate of 12% for the coming year. Given that the required rate of return for a share of African Bank is 14.5% and the current dividend is R1.50, what is the share price valuation of the African Bank share next year? ` (3)

**Question 4 (5 marks)**

- 4.1 Mr Chisasa, a risk-averse investors, took a defensive approach in compiling his investment portfolio. Explain to Mr Chisasa what an offensive approach would entail? (1)
- 4.2 Describe the top-down approach of applying fundamental analysis. (4)

**Question 5 (5 marks)**

- Briefly discuss the stabilization stage (Maturity stage) of the industry-life-cycle approach? (5)

**Total 25 marks**



## ANNEXURE C: SEMESTER 2 - ASSIGNMENT 01

**NOTE: Use a Mark Reading Sheet to complete this assignment.**

**Due date:** 10 August 2018

**Unique number:** 712724

### Section A – Multiple Choice Questions

**(10)**

*Indicate the correct answer by choosing one option only*

1. A strong rand is disadvantageous for South African ... , and advantageous for South African ...
  - (1) importers, exporters.
  - (2) exporters, importers.
  - (3) unions, tax collections.
  - (4) corporate, importers
  
2. Which of the following is most consistent with a Yankee or Samurai bond?
  - (1) A bond denominated in US-dollars.
  - (2) A bond denominated in a currency other than that of the country in which it is issued.
  - (3) A bond that has embedded options.
  - (4) A bond issued in a foreign country in the currency of the investor.
  
3. A share of AutoRola Ltd. is trading at £135.35 on the London Stock Exchange. An investment bank has estimated the intrinsic value of the AutoRola Ltd share at £133.28. According to this analysis the investment bank must ...
  - (1) practice the 'buy rule'.
  - (2) Practice the 'sell rule'.
  - (3) Practice the 'don't trade rule'.
  - (4) Buy another share.
  
4. At the beginning of the year an investor purchases a share of ZJZ Ltd. for R134 and during the year the share pays a dividend of R5.20. The investor sells the share at the end of the year for R147. The investor's holding period return is:
  - (1) 13.20%
  - (2) 13.58%
  - (3) 14.00%
  - (4) 13.74%
  
5. For a put option, that is out-of-the-money ...
  - (1) the market price > strike price.
  - (2) the market price = strike price.
  - (3) the market price < strike price.
  - (4) the market price = 0.

6. Hedgers who own commodities or financial instruments and are concerned about possible decrease in these goods' prices can ...
- (1) buy futures contracts to protect themselves against future price decreases.
  - (2) buy futures contracts to protect themselves against losing future value.
  - (3) sell futures contracts to protect themselves from losing future value.
  - (4) buy and sell futures contracts in order to protect themselves from future price increases and price decreases.
7. A share of LuxuryApp Ltd. is currently trading at ¥ 32.71 on the Tokyo Stock Exchange. If an investor believes the share price of LuxuryApp Ltd. will decrease in the future, which of the following actions should he perform in order to profit?
- (1) Buy a call option.
  - (2) Sell a put option.
  - (3) Sell a call option.
  - (4) Buy a put option.
8. The standard deviation of a BankWide share with a variance of 5.58 is:
- (1) 2.38
  - (2) 2.34
  - (3) 2.30
  - (4) 2.36
9. In times of low interest rates, investors may wish to:
- (1) Decrease their shareholdings
  - (2) Increase their cash holdings
  - (3) Increase their share holdings
  - (4) Do nothing
10. Mr. KB enters into a leveraged futures contract. Mr KB is required to deposit funds before he will be allowed to trade futures contracts. This margin is known as ... margin.
- (1) leveraged
  - (2) maintenance
  - (3) initial
  - (4) variation

**Section B – True or False****(5)****MARK (1) FOR TRUE, AND (2) FOR FALSE**

- 11 Diversification benefit exists when the covariance between two securities is positive.
- 12 The pioneer stage of the industry life-cycle is characterised by high development and operating costs, a limited market, low prices and in many instances a satisfactory level of profitability.
- 13 The debt ratio indicates to what extent a company is financed by borrowed funds or by own funds.
- 14 Prices of fixed-interest securities have a positive relationship with interest rates, thus the price of fixed-interest securities will increase when interest rates increase.
- 15 Preference shares are hybrid securities as they do have fixed-income features.

**TOTAL MARKS****[15]**

## ANNEXURE D: SEMESTER 2 - ASSIGNMENT 02

Due date: 28 August 2018

Unique number: 820904

### Question 1 (5 marks)

The following information relates to a share of Dill Technologies Ltd.

State of the Economy	Probability	Return
Economic expansion	0.50	14%
Stable economic growth	0.30	8%
Economic contraction	0.20	4%

- 1.1 Calculate the expected rate of return  $[E(r)]$  of the share. (2)
- 1.2 Calculate the standard deviation ( $\sigma$ ) of the share. (3)

### Question 2 (5 marks)

- 2.1 Everything else (all factors) being constant, what effect would an increase in the strike price have on the value of a call option? (1)
- 2.2 Assume MobileE Ltd is expected by investors to have a dividend growth rate of 7% in the next year, and that the required rate of return for this stock is 10.5%. The next dividend to be paid is R5.50. Calculate the value of the share using the dividend discount (valuation) model. (2)
- 2.3 An investor invests R200 at the beginning of the year. During the year the investor receives a dividend of R2.50. At the end of the year the investment is worth R 252. Calculate the holding period return for the year that the investor received. (2)

### Question 3 (5 marks)

- 3.1 An investor received a return of 12% in 2014. In 2015 she received a return of 9% and in 2016 the return was -3%. With this information, calculate the compounded rate of return for the investor over the three year period. (round the final answer to 1 decimal). (2)
- 3.2 Give the formulas and briefly discuss the sustainable growth rate (g). (2)
- 3.3 A put option has an exercise price of R132. Currently the underlying asset is trading at R136.25. What is the intrinsic value of this option currently, and state whether this option is on or out-of-the-money? (1)

### Question 4 (5 marks)

- 4.1 Differentiate between diversifiable and non-diversifiable risk and provide an example of both. (4)
- 4.2 Define Inflation-protected Treasury Bonds. (1)

### Question 5 (5 marks)

- 5.1 Which factors, that may change the personal circumstances of Mr JK (an investor), must be analysed and considered when compiling his investment portfolio? (3)
- 5.2 Explain the volatility of shares in relation to beta. (2)

**Total 25 marks**