The Governance Institute

Subject no. 51B

Level 4 Subsidiary Certificate in International Finance, Investment and Administration
Level 4 Certificate in International Finance and Administration

Paper 3
Investment

Sample assessment material

January 2015 **Time allowed: 1 hour 30 minutes**

Do not open this examination paper until the presiding officer or an invigilator tells you to.

You must not take this paper out of the examination room.

The examination paper contains **18** questions and is divided into three sections. You must attempt **all questions** in Section A and Section B and **two questions** in Section C.

Section A contains 15 marks, Section B contains 30 marks, and Section C contains 30 marks. There are **75 marks** available in total for the paper.

You should allow yourself approximately 20 minutes in total to answer the questions in Section A, 30 minutes in total to answer the questions in Section B, and 20 minutes for each of the questions attempted in Section C.

You may continue your answers on a separate sheet of paper if necessary. Separate answer sheets are available from the invigilator.

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Section A

*Answer **all** questions in this section.*
Continue your answers on a separate sheet of paper if necessary.

1. The term 'wasting assets' can apply to:
   *(Tick **one** box only)*

   A. ☐ Commercial paper

   B. ☐ Covered warrants

   C. ☐ Junk bonds

   D. ☐ Rump gilts

(1 mark)

2. What are standardised derivative instruments with a single delivery date known as?

   _____

(1 mark)

3. An organisation buys and sells investments simultaneously in different markets in order to take advantage of differing prices for the same assets.

   This practice is known as:

   _____

(1 mark)

4. What are investment trust companies (ITCs)?

   _____

   _____

(2 marks)

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5. Describe **one** positive effect of quantitative easing (QE).

_____

_____

(1 mark)

6. Ordinary shareholders have the right to subscribe to new ordinary share capital and convertible loan stock in direct proportion to their existing holdings.

Is this **true** or **false**?
*(Tick **one** box only)*

☐ True

☐ False

(1 mark)

7. Which organisation regulates the Eurobonds market?

_____

(1 mark)

8. Outline why a company's board of directors may decide to do a stock split.

_____

_____

_____

_____

_____

(2 marks)

9. Give **one** reason why a government may issue Treasury Bills (T-bills).

_____

(1 mark)

10. Describe the difference between gross domestic product (GDP) and gross national product (GNP).

_____

_____

_____

_____

_____

_____

(4 marks)

_____

TOTAL FOR SECTION A = 15 MARKS

Section B

*Answer **all** questions in this section.*
Continue your answers on a separate sheet of paper if necessary.

11. Explain **three** reasons why directors might seek to have their company listed on a recognised stock exchange.

i _____

_____

ii _____

_____

iii _____

_____

(6 marks)

12. Explain the advantages, from the perspective of a company, of issuing preference shares.

_____

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13. Describe what the Stock Exchange Trading System (SETS) in the London Stock Exchange is **and** explain how it works.

(6 marks)

14. (a) Describe the purpose of a futures clearing house.

(2 marks)

(b) Explain how a futures clearing house works.

(4 marks)

15. Explain the steps involved in calculating gross redemption yield (GRY).

(6 marks)

TOTAL FOR SECTION B = 30 MARKS

Section C

*Answer **two** questions only.*
Continue your answers on a separate sheet of paper if necessary.

16. Discuss the risks and obligations involved for the purchasers and writers of different types of options contracts.

(15 marks)

17. Explain how hedge funds work **and** discuss the risks and disadvantages for investors to consider before investing in them.

(15 marks)

18. Discuss the key issues which an employee should consider before becoming a member of a company pension scheme.

(15 marks)

TOTAL FOR SECTION C = 30 MARKS

TOTAL FOR PAPER = 75 MARKS

The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.

END

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