**INTERNAL SUMMATIVE ASSESSMENT - MEMO**

**Learning units: 1- 3**

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| ***INSTRUCTIONS***   * *Complete all questions using black ink.* * *Write legibly in the language agreed, namely English.* * *Label drawings clearly (if applicable).* * *The required mark to be declared competent is 50%.* * *This is a closed book, 3-hour test.* |
| **SECTION A: MULTIPLE CHOICE QUESTIONS**  **Select the correct answer from the alternatives given.**  **SECTION A: MULTIPLE CHOICE QUESTIONS**  **Select the correct answer from the alternatives given.**   1. **Which of the following is NOT a determinant of supply?** 2. Technological improvements 3. Future expectations 4. Size of the market 5. The relationship between Price and quantity supplied 6. **Any Price that is higher than the equilibrium Price will result in?**   A. Surplus.  B. Shortage.  C. Equilibrium.  D. Higher demand.   1. **Which of the following is NOT included in the formula for calculation of Nominal Gross Domestic product?**   A. C - Consumption by Households  B. I – Consumption by Business on Capital goods.  C. G -. Consumption by Government of Goods and services  D. GDP Deflator.   1. **The highest point of an expansionary phase of the Business Cycle is called?** 2. Trough. 3. Peak. 4. Recession. 5. Contraction. 6. **Disinflation can be defined as:** 7. The sustained and continuous rise in the General price Level of an Economy. 8. The general decline in prices of goods and services in an economy 9. A drop in the rate at which Prices are generally going up in an economy 10. None of the Above. 11. **The redistribution of wealth from lenders to borrowers occurs when which condition is met?** 12. The inflation rate should be more than the interest rate. 13. The inflation rate should less than the inflation rate. 14. Real interest rates should be positive. 15. None of the above. 16. **What is the argument for inclusion of is Equivalent Owners Rent (EOR) instead of including mortgage repayments in calculating CPIX?** 17. Including Mortgage repayments in CPI calculation has a “perverse effect” because they are determined by SARB policy and not by market forces 18. EOR is easier to compute compared to mortgage repayments calculation 19. There is no difference between including EOR and mortgage repayments in CPI calculation 20. None of the above 21. **The following are ways that the SARB uses to control the quantity of supply and level of interest rates except?** 22. The Repurchase order system (repo rate). 23. Open market transactions. 24. Cash Reserve requirement/structural liquidity requirement. 25. Fiscal policy. 26. **The term contractionary fiscal policy refers to the following:** 27. A deliberate measure by the government to reduce government expenditure. 28. A deliberate measure by the government to reduce government expenditure. 29. Its aim is to achieve GDP Growth. 30. The government never uses this strategy. 31. **Which of the risks listed below are applicable to a money market investment?** 32. Yield curve risk. 33. Liquidity risk. 34. Call risk. 35. Inflation risk. 36. **How is the SARB likely to react to higher than expected inflation and how does this impact the price of Bonds?**   A. Cut the repo rate and Bond prices rise.  B. Increase the repo rate and Bond prices fall.  C. Leave the repo rate unchanged and Bond prices fall.  D. Increase the repo rate and Bond prices rise.   1. **All things being equal, stock market prefer the following in relation to the price/earnings ratio:** 2. A low Price/Earnings ratio indicating that the market has overpriced the Share 3. A low Price/Earnings ratio indicating that the market has undervalued the share 4. A high Price/Earnings ratio signalling that it is a good time to buy the share 5. None of the above 6. **A recent University Graduate who has never worked and has started a new job falls into which of the following stages of the financial Life cycles stages?** 7. Retirement stage 8. Dependants stage 9. Growth stage 10. None of the above 11. **Which if the following factors have an impact on a financial plan?** 12. Economic factors 13. Social factors 14. Legislative factors 15. All of the above 16. **According to the FAIS ACT, an intermediary service is defined as follows:** 17. The furnishing of advice 18. Recommendation of a financial nature 19. Guidance of a financial nature 20. None of the above 21. **Which of the following is NOT defined as a financial product by the FAIS Act?** 22. Wills and Trusts 23. Shares 24. Collective investment schemes 25. Long- or short-term insurance policies 26. **The following are requirements all FSPs have to meet except:** 27. Requirement to maintain operational ability 28. Requirement to maintain financial soundness 29. Appointment of compliance officer for an FSP that has more than 1 key individual or representatives 30. They are not required to keep Clients funds separate from the funds of the Business 31. **A representative who has been debarred by an FSP can do the following:** 32. Apply for a job with a new FSP and begin rendering a financial service 33. Apply for rehabilitation within 2 months from effective date of debarment 34. Continue giving advice despite the ban 35. Apply for lifting of debarment after 12 months of debarment on condition that the cause of debarment has been addressed 36. **Jordan cancelled her short-term insurance policy with ABC Financial services recently. According to the FAIS Act, which record keeping requirement is ABC supposed to adhere to?** 37. Destroy all records as the policy no longer exists 38. Keep the record of the policy and cancellation for 1 year only and then destroy it 39. Keep all records and the cancellation for 5 years in a secure and accessible format 40. None of above.   **20. Retail Distribution Review (RDR)’s objective is one of the following except:**   1. Support the delivery of suitable products and provide fair access to suitable advice for financial customers 2. Support the delivery of suitable products and provide fair access to suitable advice for financial customers 3. Enable customers to understand and compare the nature, value and cost of advice and other services intermediaries provide 4. Promote profitability of Financial Services Providers at the expenses of Clients   **21. The following are examples of ethical behaviour in the Financial Services Industry except:**   1. Trustworthiness 2. Client confidentiality at all times 3. Non-Disclosure of important information to a Client 4. Diligence and care for Clients   **22. In determining a Client’s risk appetite, which of the following of the following is not a correct answer?**   1. Client’s natural attitude to risk 2. The Client’s target rate of return 3. The investor’s investment horizon 4. None of the above is important in determining risk appetite   **23. Which of the following statements is true with regards to the relationship between expected returns and standard deviation?**   1. Investments with the lowest expected returns and highest standard deviations are the most ideal for investors 2. Investments with the highest expected returns and lowest standard deviations are the most ideal for investors 3. Standard deviation is not supposed to be considered in analysing the risk of an investment given it’s expected returns 4. A high standard deviation of an investment is most ideal for risk averse investors.   **State whether the following statements are true or false**.  **24.** A representative must meet the fit and proper requirements of honesty and integrity, competence (experience, qualifications, and continuous professional development and pass regulatory exams) and operational ability. **True**  **25.** A representative who no longer complies with the fit and proper requirements of the FAIS Act can be debarred by the FSP or FSCA. The FSP has an obligation to report the debarment of representative within 15 days. An application for reappointment can be made after 12 months from date of debarment. **True**  **26.** The FSCA is charged with monitoring the soundness and safety of Banks and Insurance companies in South Africa. **False. It is the Prudential Authority that carries out this function**  **27**. The instrument used to curb unethical behaviour in the industry is the FAIS General Code of Conduct. The Code of conduct sets a benchmark for acceptable ethical behaviour and all non-adherence to the code has serious consequences to FSPs and advisers. **True**  **Match the following words/terms in column A with their correct meaning in Column B.**  **Solution**   |  |  | | --- | --- | | TCF Outcome 3 | Consumers are provided with clear information and are kept appropriately informed before, during and after point of sale. | | TCF Outcome 1 | Consumers can be confident that they are dealing with Businesses where the fair treatment of consumers is central to Business culture. | | TCF Outcome 5 | Consumers are provided with products that perform as businesses have led them to expect and the associated service is both of an acceptable standard and what they have been led to expect. | | TCF Outcome 2 | Products and services marketed and distributed in the retail market are designed to meet the needs of identified customer Groups and are marketed accordingly. | | TCF Outcome 4 | Where consumers receive advice, the advice is suitable and takes into account their circumstances. | | TCF Outcome 6 | Consumers do not face unreasonable post-sale barriers to changing a product, switching a provider, submitting a claim or making a complaint. |   **Total marks: 32** |

**SECTION B: SHORT AND LONG QUESTIONS**

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**Question 1 (8 Marks)**

**Give and explain the variables in the calculation of GDP.**

**Model Answer**

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| GDP=C+I+G+(X-M), (3)  Where,  C = consumption by Households, (1)  I = Consumption by Business on Capital goods (that is goods used in the production of goods and services). (1)  G= Consumption by the government of Goods and services. (1)  X = Exports (This measures spending on South African Goods by foreigners outside the Republic of South Africa). As this is expenditure on South African produced Goods, we add it. (1)  M = Imports (This measures the consumption by South Africans of non-South African produced goods. (1) |

**Question 2 (4 Marks)**

**Explain why it is important to strike a balance between high and low inflation.**

**Model Answer**

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| High inflation rate erodes the purchasing power of money and results in lower standards of living. (2)  Low inflation may trigger deflation which could cause a recession in an economy (2) |

**Question 3 (4 Marks)**

**What is the role of a compliance officer in an FSP and under what circumstances should one be appointed?**

**Model answer**

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| * Monitor compliance by FSP and representatives with FAIS Act, (1) * Establishing and maintaining compliance procedures and submission of an annual compliance report (1)   An FSP that has more than one key individual or more than 1 representative is required by section 17 of chapter V of the FAIS Act to appoint a compliance officer (2) |

**Question 4 (8 Marks)**

**What are the pros and cons of an expansionary monetary policy? (6)**

**Model Answer**

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| Advantages   * + - 1. Crowding in effect: increased government spending will cause business sector to increase output which increases GDP Growth (2)       2. Increased government expenditure creates employment as the government hires more labour to fulfil public works programmes (2)   Disadvantages   1. Crowding out effect: Borrowing becomes more expensive for private sector due to excessive government borrowing which raises the interest rates in the economy. This leads to less business expansion (2) 2. Austerity measures which are meant to reduce government debt may cause social problems such as lower incomes due to increased taxes in order to repay debt (2) |

**Question 5 (4 Marks)**

**Why are money market securities an attractive investment choice for a short-term investor?**

**Model Answer**

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| 1. They are of a shorter duration (less than 12 months maturity) and some of the securities like Treasury Bills have virtually no risk of default (2) 2. They are highly tradable in the secondary market and a short-term investor can liquidate them with ease (2) |

**Question 6 (6 marks)**

**Reinvestment, liquidity and interest rate risk are some of the risks for Bondholders. Describe these risks.**

**Model Answer**

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| 1. Reinvestment Risk: This is the risk that interest rates may be lower at the time that the Bond is called by its issuer or at the time that a coupon is reinvested. If prevailing interest rates are lower, the proceeds from the callable bond are reinvested at a lower interest rate (2) 2. Liquidity risk: The risk that the bondholder may find it difficult to sell a bond in the market due to the deterioration the creditworthiness of the issuer. (2) 3. Interest Rate risk: The risk that the Bond prices may fall when interest rates increase (2) |

**Question 7(4 Marks)**

**How does the stock market respond to positive and negative economic surprises?**

Model Answer

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| 1. A higher than anticipated economic performance is typically met with a rise in share prices as investors re-evaluate the future earnings of the shares of the companies that they are invested in. Higher economic growth than expected reflects higher demand of goods and services than previously anticipated. Companies become more profitable in economic booms and these expectations are reflected in the higher share prices after receipt of the news (2) 2. Economic performance that is lower than expected tends to have a negative bearing on the JSE. In a contracting economy, consumers cut down on unnecessary expenditure which affects retailers and banks’ capacity to extend loans may be hampered by a declining industry where production has slumped. (2) |

**Question 8 (3 Marks)**

**How does Retail Distribution Review (RDR) aim to achieve its objectives?**

Model Answer

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| In order to meet the required outcomes, RDR seeks to revamp:   1. the types of services provided by intermediaries, 2. the relationships between product suppliers and intermediaries 3. how intermediaries are remunerated |

**Question 9(2 Marks)**

**List any 2 objectives of the Promotion of information Act (POPI Act)**

Model Answer

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| Any 2 from the following:   * To promote the protection of information processed by the public and private bodies * To introduce certain conditions so as to establish minimum requirements for the processing of personal information * To provide for the establishment of an information regulator to exercise certain powers and to perform certain duties and functions in terms of the act and the promotion of Access to information Act 2000 * To provide for the issuing of codes of conduct * To provide for the rights of persons regarding unsolicited electronic communications and automated decision making * To regulate the flow of personal information across the borders of the Republic |

**SECTION C: APPLICATION QUESTIONS**

**Question 10 (15 marks)**

Jordan is a 32-year-old self-employed entrepreneur. He started his business a year ago when he graduated from University (he has never worked before) and although he now has a Client base, his income fluctuates on a monthly basis such that in months of low business activity, he struggles to pay for his rent and other monthly expenses. He does however have some good months where he has more than enough to pay for his monthly expenses. Jordan is engaged and he is planning to get married to his fiancée Gertrude at a lavish wedding in a year’s time. The two live together but if Jordan was to pass away before they get married, Jordan wants 70% of his Estate to be distributed to his elderly parents who are financially dependent on him. His main assets are his 100% shareholding in his business and Life insurance policy. 5 Months ago, Jordan was involved in a car accident and could not work for a few weeks and this affected his income as he could not work. In addition, the huge medical bills that he incurred has left him owing a huge amount to Healthcare providers that he used. Jordan ponders on how he can avoid being in a similar situation in future.

A good Client of yours, Senzo has referred Jordan to you for advice. Identify the stage that Jordan is in as per the Financial Life cycle model. Identify Jordan’s needs and advise him on what the solutions to these needs are.

**Model Answer**

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| * Assessor discretion is required. The learner should clearly justify why Jordan is in the Life stage selected and identify needs and solutions based on the information provided. * Jordan is a recent graduate and has never worked before. Further, he has not gone through the dependants’ stage as yet as he is not married as yet and does not live with his girlfriend. He still has a long way to get to retirement. Jordan is in the first income stage. (Any of these points can be used to justify the life stage that Jordan is at) (3) * Jordan does not seem to have a budget and good financial habit. He has months of plenty when business is good but he does not appear to be saving as he struggles to pay bills in months where business is low. Jordan needs to have a budget and have the discipline to stick to the budget. Further, He needs to set up an emergency fund that he can tap into when business is low. (2) * Jordan needs to plan an Estate plan in order to fulfil his wishes of leaving 70% of his Estate to his Elderly parents. In particular he needs a valid will where he states his wishes. Without the will, it is possible for the Estate to be distributed against his will. (2) * Although Jordan is still young, the fact that he is self-employed and does not have an employer sponsored retirement plan, means he needs to make retirement planning a priority. Although there are still a lot of working years ahead of him, it is important to strat investing for retirement as soon as possible in order to gain form long term compound returns. (2) * Jordan needs health insurance in order to get cover for unexpected changes in health. His recent experience shows this is a need in his life as he has been affected financially from his recent hospitalisation. A medical aid plan that provides good hospital cover is a solution to this need (2) * Jordan could not work for several weeks due to injuries sustained from the accident. His income was severely affected by his inability to work. Jordan needs to consider income protection cover that covers him in the event of temporary or permanent disability. This would protect his income in the vent that he was no longer able to work (2) * Jordan is planning to get married. Wedding expenses can be quite high and it is clear Jordan will have a significant bill given that he plans a lavish wedding. He needs to save for the wedding in order to avoid incurring debt that may affect his Life for a long time (2) |