Section A - Multiple Choice (25 questions, 1 mark each)

1. Which of the following does financial services industry consist of?

I. Telecommunication
II. Insurance
III. Fund Management
IV. Trusts

A. I and II
B. III and IV
C. I, II and III
D. II, III and IV

2. Which of the following statements describe the main functions of Hong Kong Monetary Authority?

I. Keeping the Hong Kong dollar stable.
II. Promoting the safety of Hong Kong's banking system.
III. Assisting the Chief Executive to promote his policies.
IV. Managing the Exchange Fund (Hong Kong's official reserves) in a sound and effective way.

A. I and III
B. II and IV
C. I, II and IV
D. II, III and IV
3. Which of the following statements describing securities firms is (are) CORRECT?

I. They are regulated by Hong Kong Monetary Authority.
II. They act as intermediaries between buyers and sellers of securities.
III. They charge a commission for their services.
IV. They may also provide advice to investors.

A. I only
B. II only
C. I and IV
D. II, III and IV

4. What is the meaning of “financing” in the financial market?

A. Advising an organization to raise charity funds
B. Investing in the securities market
C. **Sourcing funds**
D. Converting the assets into cash

5. The capital markets consist of the primary market and secondary market. Which of the following statements is TRUE regarding the differences between the two markets?

A. **New issues are distributed to investors in the primary market while existing securities are traded in the secondary market.**
B. Existing securities are traded in the primary market while new issues are distributed to investors in the secondary market.
C. New issues are traded in the primary market while existing securities are distributed in the secondary market.
D. Existing securities are distributed to investors in the primary market while new issues are traded in the secondary market.
6. The short term financial instruments traded in money market is commonly called

A. Bonds
B. Shares
C. Notes
D. **Commercial Papers**

7. Financial intermediation is the process that the financial intermediaries connect ____________ and ____________ by transferring funds from one side to another.

A. Banks and account holders
B. **Borrowers and lenders**
C. Borrowers and securities firms
D. Investors and lenders

8. You bought a share for $10 and sold it for $12 after one year. You received share dividend $1 during the holding period. What was the rate of holding period return?

A. 10%
B. 20%
C. **30%**
D. 40%

9. If the interest rate of saving accounts offered by the banks is 5% and the inflation rate is 3%, then what is the real interest rate?

A. 1.58%
B. 1.85%
C. **1.94%**
D. 2.00%
10. Which of the following are the regulators of securities market and banking industry of the HKSAR respectively?

A. Monetary Regulatory Committee and Hong Kong Association of Banks  
B. Securities and Futures Commission and Hong Kong Association of Banks  
C. Hong Kong Stock Exchange and Monetary Regulatory committee  
D. Securities and Futures Commission and Hong Kong Monetary Authority

11. Which of the following statements is a CORRECT description of “hard currency” in the foreign exchange market?

A. The values of the currencies often fluctuate often due to political uncertainty.  
B. The values of the currencies often fluctuate due to economic uncertainty  
C. The currencies have higher appreciation rates than the soft currency.  
D. The currencies are widely accepted around the world as a form of payment for goods and services.

12. If the inflation rate is 5%, what will be the selling price after 3 years of a goods that you can buy right now for $1,500?

A. $1,628  
B. $1,704  
C. $1,736  
D. $1,827

13. If Peter wants to save $1 million for his son’s overseas university study fee after 15 years, how much does Peter have to set aside right now? (Assuming that the investment return rate is 7%).

A. $255,235  
B. $362,446  
C. $458,356  
D. $528,239
14. Which of the following indexes is generally used as the measure to reflect changes in the price level of consumer goods and services purchased by households?

A. Hang Seng Index  
**B. Consumer Price Index**  
C. Producer Price Index  
D. Consumer Confidence Index

15. According to the three-tier banking system of Hong Kong, the deposit-taking companies are restricted to take deposits up to the limit of __________.

A. HK$10,000 or more  
**B. HK$100,000 or more**  
C. HK$500,000 or more  
D. HK$1,000,000 or more

16. Which of the following instruments would be commonly used as proxies of risk-free assets?

I. U.S. Treasury Bills  
II. Hong Kong Stocks  
III. Exchange-Fund Bills  
IV. Corporate Bonds

A. I and III  
B. II and IV  
C. I, II and IV  
D. II, III and IV

17. According to their own risk levels, rank the following investment funds in ascending order (from lowest to highest risk).

I. Regional stock fund  
II. Bond fund  
III. Hedge fund  
IV. Global stock fund
A. (I) (IV) (II) (III)
B. (I) (II) (III) (IV)
C. (II) (III) (IV) (I)
D. (II) (IV) (I) (III)

18. According to regulatory requirements of Hong Kong Monetary Authority, all authorized financial institutes have to meet the minimum levels of two financial ratios. What are these two ratios?

A. Current ratio and liquidity ratio
B. Capital adequacy ratio and debt ratio
C. Debt ratio and current ratio
D. Liquidity ratio and capital adequacy ratio

19. Which of the following statements are INCORRECT for a restricted licence bank operated in Hong Kong?

I. It may take time deposits from members of the public in amount of HK$100,000 and above.
II. It may take time deposits from members of the public in amount of HK$500,000 and above.
III. It may take time deposits from members of the public without restriction on maturity.
IV. It may take time deposits from members of the public with restriction on maturity of at least three months.

A. I and III
B. I and IV
C. II and III
D. II and IV

20. Which of the following institutions is responsible for supervising the insurers operated in Hong Kong?

A. Insurance Authority
B. Insurance Industry Union
C. Insurance Claim Department
D. Hong Kong Federation of Insurers

21. A couple has an investment portfolio in their joint account with market value of HK$380,000 (in stocks) and $180,000 (in futures). What will be the amount of compensation received from the Investor Compensation Fund by the couple for their loss if their intermediary defaults?

A. $300,000  
B. $380,000  
C. **$480,000**  
D. $560,000

22. Which of the following is NOT the responsibility of Mandatory Provident Fund Schemes Authority?

A. Supervising approved trustees  
B. **Working with the service providers to promote their MPF products**  
C. Working with other financial regulators in overseeing MPF products and MPF intermediaries  
D. Overseeing the operation of retirement schemes that fall under the Occupational Retirement Schemes ORSO

23. Which of the following ordinances is(are) the legislation on money laundering in Hong Kong?

I. The Anti-Money Laundering Ordinance  
II. The Drug Trafficking (Recovery of Proceeds) Ordinance  
III. The Drug Trafficking and Money Laundering Ordinance  
IV. The Organized and Serious Crimes Ordinance

A. I only  
B. **II and IV**  
C. II and III  
D. I, III and IV
24. Which of the following constitutes stock market manipulation?

A. Actively interfere the demand and supply of the securities and derivatives
B. Company director disclose the sensitive company news which have not been publicly disclosed
C. Anyone who disclose unfavorable information intentionally regarding the company business
D. An account executive trades stocks or uses funds in an account without the clients’ consent or knowledge

25. In order to avoid being trapped by the boiler room operation, which of the following should people do when they are “cold-called”?

I. Call the police immediately
II. Hang up immediately
III. Check if the company is on the “Alert List”
IV. Verify the legitimacy of the persons or the companies with the SFC's Public Register of Licensee and Registered Institutions

A. I and III
B. II and IV
C. I, II and IV
D. II, III and IV
Section B – Short Question (4 questions)

1. Briefly describe the difference between real assets and financial assets in the economy. (4 marks - 2 marks for each asset)
While real assets generate net income to the economy, financial assets simply define the allocation of income or wealth among individuals who can chose between consuming their wealth today or investing for the future.

2. List out any five types of financial instrument which are available in Hong Kong Market. (5 marks - 1 mark for each instrument)
Any five of the following:
- Bills, notes and bonds
- Stocks
- Futures
- Warrants
- Options
- Structured products
- Insurance
- Exchange traded funds
- Unit trust/mutual funds
- Retirement funds

3. List out any five regulated activities that the institutes or individuals have to be authorized by The Securities and Futures Commission to carry out. (5 marks - 1 mark for each activity)
Any five of the following:
- Dealing in securities
- Dealing in futures contracts
- Leveraged foreign exchange trading
- Advising on securities
- Advising on futures contracts
- Advising on corporate finance
- Providing automated trading services
- Securities margin financing
- Asset management
4. State and explain the three stages of Money Laundering. (6 marks; 2 marks for each stage with explanation).

Placement - the physical disposal of cash proceeds derived from illegal activity.

Layering - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.

Integration - the provision of apparent legitimacy to criminally derived wealth. If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing to be normal business funds.
Section C – Long Question (2 questions)

1. John is going to be praised by the employer for his top sales record of year 2010. The company offers him two options of prize payment. The first option is to pay him $680,000 in lumpsum at the end of 2012. The second option is to pay him $230,000 per year for 3 years starting from the end of 2011. Assuming that the inflation rate is 8% per annum?

   a) According to the above information, calculate (to the nearest dollar) the present values of the two options. (8 marks)
   
   Present value of option one = $680,000/(1+8%)^2
   
   =$582,990
   
   Or by calculator N=2, I=8, FV= -680,000, Solve PV
   
   Present value of option two = $230,000/(1+8%) + $230,000/(1+8%)^2 + $230,000/(1+8%)^3
   
   =$592,732
   
   Or by calculator N=3, I=8, FV= 0, PMT= -230,000, Solve PV

   b) Advise John which option he should choose. (2 marks)
   
   John should choose option B because the present value of option B is greater than that of option A.
2. Mr. Fung, aged 33, is a sales manager in a multi-national company that produces sports shoes and fashions with monthly salary of $35,000. Mrs. Fung, aged 30, is a quality control supervisor in a toy factory with monthly salary $18,000. They have a daughter, Marie, of two years old. The balance of the family’s savings account is $750,000. The monthly expense of the family is $28,000.

The couple wants to prepare $1 million for Marie’s university education at her age of 17.

They also want to retire after 25 years and have 5 million dollar at the time in order to maintain the living standard.

You, as a certified financial planner, were introduced by your friend to Mr. Fung. He expressed that he was interested to understand more about the financial needs of his family. Your suggestions should be made on the minimum risk basis.

Additional information:
Inflation rate: 3%
Return rate of bond fund: 2%
Return rate of global stock fund: 7%

a) What is the present value of the 5 million after 25 years? (4 marks)
Present value = $5,000,000/(1+3%)^{25} = $2,388,027
Or by calculator N=25, I=3, FV= 5,000,000, Solve PV

b) How much money does Mr. Fung have to set aside right now for the university fee of Marie? (4 marks). Justify your choice of the investment fund for the education fee. (2 marks)

Present value = $1,000,000/(1+(7-3)%)^{15} = $555,264
Or by calculator N=15, I=7-3, FV= 1,000,000, Solve PV

Choose the global stock fund.
The real rate of return is (7 – 3)%.
After deducting the PV from the family saving, the remain is about $200,000 which is enough for the family emergency cash.

End