UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER 2013

COURSE TITLE   :   INSURANCE, STOCK EXCHANGE AND BANKING

COURSE CODE   :   IDE AC 314 (M) 2013

DEGREE/DIPLOMA   :   DIPLOMA IN COMMERCE

TIME ALLOWED   :   THREE (3) HOURS

INSTRUCTIONS   :   1.   TOTAL NUMBER OF QUESTIONS ON
                                  THE PAPER: FOUR (4)

                           2.   ATTEMPT ALL FOUR (4) QUESTIONS

                           3.   THE MARKS AWARDED FOR A QUESTION ARE INDICATED
                                  AT THE END OF EACH QUESTION

                           4.   WHERE APPLICABLE, ALL WORKINGS ARE TO BE SHOWN

                           5.   CALCULATIONS ARE TO BE MADE TO TWO DECIMAL
                                  PLACES OF ACCURACY, UNLESS OTHERWISE INSTRUCTED.

SPECIAL REQUIREMENTS   :   NONE

NOTE   :   YOU ARE REMINDED THAT IN ASSESSING YOUR WORK,
                     ACCOUNT WILL BE TAKEN OF THE ACCURACY OF
                     LANGUAGE, THE GENERAL QUALITY OF EPRESSION,
                     TOGETHER WITH THE LAYOUT AND PRESENTATION OF
                     YOUR FINAL ANSWER.

THIS QUESITON PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY
THE INVIGILATOR.

QUESTION 1

a) Discuss the relationship between liquidity and risk in a financial instrument; between risk and yield and between liquidity and yield.

(6 MARKS)

(6 What is meant by the term *liability management?* Discuss the instruments banks use in liability management. What are the advantages and potential pitfalls of aggressive liability management for commercial banks? **(8 MARKS)**

(7 You are given the following information about currency rates for sterling spot and forward.

	Spot	One month forward	Three months forward
US (dollar)	1.5200 – 1.5210	0.32-0.27c pm	0.89-0.84 pm
Cananda (dollar)	1.8630-1.8640	0.30-0.20c pm	0.90-0.80 pm
Nertherlands (guilder)	4.05¼ - 4.06¼	2⅜ - 1⅞c pm	6¾ - 6¼ pm
Belgium (franc)	72.20 – 72.30	10 - 20c dis	45 – 55 dis
Denmark (krone)	13.01-13.02	44 - 5⅝ ore dis	18⅜ - 19¾ dis
Germany (DM)	3.06½ - 3.07½	2 - 1½ pf pm	5½ -5 pm

Calculate the cost or value in sterling to a customer who wishes to:-

a) Buy US$ 28 000 one month forward from his bank
b) Buy Canadian $ 50 000 spot
c) Buy Belgian francs 150 000 three months forward
d) Sell guilders 56 000 one month forward
e) Sell Danish kroner 40 000 three months forward
f) Sell DM 12 000 one month forward

(11 MARKS)

TOTAL (25 MARKS)

QUESTION 2

a) Discuss with appropriate examples, the following types of risks:-

   (i)   Pure or speculative or
   (ii)   Fundamental or Particular

(6 MARKS)

b) Explain the main features of Insurable Risk.

(12 MARKS)

c) (I)   A supplier's total stock valued at E 100 000 is insured against fire and theft on a first loss basis with a sum insured of E 20 000. If stock valued at E 40 000 is stolen, what is the maximum payment, if any that will be made by the insurer?   **(2 MARKS)**

   (II)   For whom can insurable interest exist on a building between:-

         a) The owner of the building
         b) The person who rents the top floor
         c) The mortgagee who has financed the purchase of the building
         d) A person who has put in an offer to purchase the building but which has not yet been accepted.   **(5 MARKS)**

TOTAL (25 MARKS)

3

QUESTION 3

a) Explain the relationship between stock market performance and economic activity.

(8 *MARKS*)

b) A company is all equity financed with 1 million shares in issue with a current price of E2.50. It intends to make a 1 for 4 rights issue where the issue price will be E1.80. If the theoretical ex-rights price is given as E2.36.

Calculate the price of the right to buy one new share

(5 MARKS)

c) If a Shareholder owns 10 000 shares, demonstrate with calculations that the wealth of this shareholder will be unchanged if either:-

(i) The rights are sold or
(ii) The new shares are taken up

(12 MARKS)

TOTAL (25 MARKS)

QUESTION 4

Write short explanatory notes on the following:-

a)	Bank insolvency	(5 MARKS)
b)	Material fact within an insurance contract context	(5 MARKS)
c)	Standard and Poor's 500 index (S & P 500)	(5 MARKS)
d)	Dow Jones Industrial average (DJIA)	(5 MARKS)
e)	Sub Prime	(5 MARKS)