

**Paper 1 Quiz 5****Name:** \_\_\_\_\_ **Class:** \_\_\_\_\_

1. The following information is related to an investment project:

Initial cost: \$15,000

Discount rate: 10%

Investment period: 3 years

The project will generate cash flows of \$6,000 at the end of both Year 1 and Year 2. If the cash flow at the end of Year 3 is \_\_\_\_\_, the net present value of the project is close to zero.

A. 4,587

B. 5,083

C. 6,105

D. 7,965

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2. On 1 January 2014, Mr Wong deposited \$500,000 into a saving plan which offers a return of 5% per year, compound annually. The total amount of money Mr Wong will get from the plan after 3 years is \_\_\_\_\_ (to the nearest dollar).

A. \$431,919

B. \$525,000

C. \$551,250

D. \$578,813

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3. Paul has taken out a 3-year personal loan of \$100,000 at an annual interest rate of 12%, compounded monthly. Which of the following statements is/are correct?

(1) The annual nominal interest rate of the loan is 12%.

(2) The annual effective interest rate of the loan is higher than 12%.

(3) In general, the interest rate for a personal loan is lower than that for a credit card.

A. (1) only

B. (1) and (2) only

C. (2) and (3) only

D. (1), (2) and (3)

☐

4. Which of the following statements about credit cards are correct?

(1) They have a pre-approved credit limit.

(2) They have a payment due date.

(3) There is a monthly minimum payment for the outstanding balance.

A. (1) and (2) only

B. (1) and (3) only

C. (2) and (3) only

D. (1), (2) and (3)

☐

5. Which of the following statements about credit cards are correct?

(1) A credit limit is set.

(2) A minimum payment is set for the outstanding balance.

(3) Interest will not be charged on the remaining balance if the minimum payment is made before the due date.

A. (1) and (2) only

B. (1) and (3) only

C. (2) and (3) only

D. (1), (2) and (3)

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6. Which of the following financial products carries the highest investment risk?
- A. savings deposits
  - B. time deposits
  - C. preference shares
  - D. **ordinary shares**
7. Mary is a Secondary 5 student. She has just earned \$8,000 from her summer job. She plans to use the money for paying her university tuition fee one year later. If she wants to keep the principal and at the same time looks for some returns, which of the following instruments is most suitable to her?
- A. current account
  - B. **fixed deposit**
  - C. blue chips
  - D. warrants
8. Which of the following statements about the Mandatory Provident Fund (MPF) System is/are correct?
- (1) Employees can transfer the accrued benefits in their contribution accounts to an MPF scheme of their own choice once a year.
  - (2) Self-employed hawkers are not required to join an MPF scheme.
  - (3) If the income of an employee is below the minimum relevant income level, both the employee and the employer are not required to make mandatory contributions.
- A. (1) only
  - B. **(1) and (2) only**
  - C. (2) and (3) only
  - D. (1), (2) and (3)
9. Simon is a self-employed fashion designer. He
- (1) has the right not to enrol into an Mandatory Provident Fund (MPF) scheme.
  - (2) has the right to make voluntary contributions to the MPF scheme.
  - (3) has the right to withdraw his accrued benefits from the MPF scheme before reaching the age 65 if he migrates to another country.
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. **(2) and (3) only**
10. Ignore other factors, which of the following will lead to a decrease in the share price of a listed airline company?
- (1) a rise in interest rate
  - (2) a rise in fuel price
  - (3) the airline company issued a profit warning
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. **(1), (2) and (3)**
11. In the basic listing requirements of the Growth Enterprise Market for new applicants, there is no minimum requirement relating to\_\_\_\_\_.
- A. cash flow
  - B. **profit**
  - C. operating history
  - D. market capitalisation

12. Which of the following statements about the Hang Seng Index is correct?
- A. It is composed of 60 constituent stocks.
  - B. All of its constituent stocks are listed on the Main Board of the Stock Exchange of Hong Kong.
  - C. It reflects the performance of the stock market in the Asia-Pacific region.
  - D. 'Information technology' is one of the four sub-indexes.
- ☐
13. Mr Chan is the owner of a garment company. His supplier is promoting a new garment machine. It can be used for three years but will be worthless afterwards. Mr Chan estimates that it can bring net cash inflows of \$55,000, \$40,000 and \$30,000 at the end of the next three years, respectively. Based on the net present value, he is willing to buy the machine only if its cost can be reduced by at least \$3,000. Calculate the original cost of the machine. (Assume the cost of capital of Mr Chan's company is 5% per annum)
- A. \$111,577
  - B. \$114,577
  - C. \$117,577
  - D. \$120,577
- ☐
14. Which of the following is a benefit of using credit cards?
- A. Cardholders can purchase goods and services with a credit card at any shops.
  - B. Cardholders do not need to settle the outstanding balance in full at the end of each month.
  - C. Cardholders do not need to pay interest as long as they have settled the monthly minimum payment.
  - D. There is no upper spending limit when using a credit card.
- ☐
15. Which of the following are advantages of using credit cards in Hong Kong?
- (1) Cardholders can use their cards to make purchases at all shops in Hong Kong.
  - (2) Cardholders can use their cards to buy expensive items even if they do not have money in their bank accounts.
  - (3) Cardholders can enjoy discounts at certain restaurants if they pay with their credit cards.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- ☐
16. Elise has worked for a month after her graduation and has just received her first salary payment. She plans to invest the money to earn a high return. As she has no financial burden, she has a very high risk tolerance level. Which of the following financial instruments is the most appropriate for her?
- A. Common stock of a small technology company
  - B. Preferred stock of a large bank
  - C. iBond
  - D. Saving deposits
- ☐

17. Which of the following are the possible consequences of having a poor personal credit record?
- (1) Cannot obtain loans at a low interest rate
  - (2) Cannot apply for new credit cards
  - (3) Cannot open a bank savings account
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
- ☐
18. Which of the following best explains why investing in government bonds is less risky than in ordinary shares?
- A. Governments will compensate investors if they suffer a huge loss, but companies will not.
  - B. Ordinary shareholders have voting rights at annual general meetings, but bondholders do not.
  - C. Government bonds cannot be sold in the bond market, but ordinary shares can be sold in the stock market.
  - D. Bond interest is guaranteed, but dividends to ordinary shareholders are not.
- ☐
19. Orange Airways is a listed airline based in Hong Kong. Which of the following situations would most probably cause its stock price to drop?
- A. Interest rates in Hong Kong decrease.
  - B. Another Hong Kong-based airline increases its flight routes.
  - C. The major competitor of Orange Airways has suffered a huge loss.
  - D. Orange Airlines has laid off 400 employees in order to save costs.
- ☐
20. Which of the following statements about the Hang Seng Index (HSI) is not correct?
- A. Its constituent stocks are adjusted from time to time.
  - B. Its constituent stocks include H-shares, red chips and foreign companies.
  - C. It reflects the general price movements of stocks listed on the Hong Kong stock market.
  - D. Utilities is one of the sub-indexes of the HSI.
- ☐