

Paper 1 Quiz 5**Name:** _____ **Class:** _____

1. Mr Lee wants to buy a car 3 years later. Its price is \$500 000 now and is expected to increase by 3% per annum. To pay for the car after 3 years, he is considering investing in a fund with a return of 5% per annum, compounded annually. How much should he invest in the fund now?

A. \$471 969
B. \$490 476
C. \$509 709
D. \$529 695

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2. Which of the following are required in the calculation of the net present value of investing in a machine?

(1) initial cost of the machine
(2) scrap value of the machine
(3) useful life of the machine

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

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3. Peter wants to deposit \$500,000 in a bank for half a year. The bank offers him the following saving plans. Which plan offers the highest return?

A. a lump sum interest of \$6,000 at the end of half a year
B. an interest rate of 2.4% p.a., compounding quarterly
C. an interest rate of 2.4% p.a., compounding half-yearly
D. an interest rate of 2.4% p.a., compounding annually

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4. A credit card user

(1) can buy goods and services overseas with a credit card issued in Hong Kong
(2) can settle the whole outstanding balance of the statement by the due date in order to avoid interest charges.
(3) can enjoy a lower interest rate to settle the overdue credit card balance than for a personal loan.

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

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5. Maintaining a good personal credit records is important because it will _____.

(1) lower the cost of loans
(2) increase the chance of getting loans
(3) increase the upper limit of 70% on mortgage loans from banks

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 statements about the risks and returns of investments is/are correct?
- (1) Investing in stocks of companies from different industries can diversify firm-specific risk.
 - (2) Making a deposit into a savings account is risk free.
 - (3) Investors can get capital gains and dividends as returns for investing in bonds.
- A. (1) only
- B. (1) and (2) only
- C. (2) and (3) only
- D. (1), (2) and (3)
7. Which of the following is/are the benefit(s) of buying a company's ordinary shares over buying its debentures?
- (1) avoid total loss of investment
 - (2) have voting rights in the annual general meeting
 - (3) guarantee higher returns
- A. (1) only
- B. (2) only
- C. (1) and (3) only
- D. (2) and (3) only
8. Which of the following are the rights of an investor in debentures?
- (1) can lodge a complaint if there is a misconduct by the investment agent
 - (2) can ask for the rationale behind an investment recommendation
 - (3) can cancel the investment transaction in the cooling off period
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)
9. Which of the following statements about the Mandatory Provident Fund (MPF) System is correct?
- A. Self-employed persons aged between 16 and 65 are required to join the MPF Scheme.
- B. Construction workers are exempted from the MPF Scheme.
- C. MPF scheme members can apply for early withdrawal of the accrued benefits from the MPF Scheme if they are unemployed for more than two years.
- D. When changing jobs, MPF scheme members can transfer their accrued benefits to another MPF trustee
10. Which of the following statements about the Mandatory Provident Fund (MPF) system is correct?
- A. Self-employed persons are not required to enrol in an MPF scheme.
- B. Employees covered by the MPF system are required to contribute 5% of their income.
- C. Employees can choose to make extra voluntary contributions in addition to the regular mandatory contributions.
- D. MPF scheme members can withdraw their accrued benefits when they reach the age of 60.

11. Which of the following descriptions of the Main Board and GEM (previously known as Growth Enterprise Market) are correct?
- (1) More companies are listed on the Main Board than GEM.
 - (2) 'Management continuity for at least the three preceding financial years' is one of the basic listing requirements for applicants to list on the Main Board.
 - (3) The Main Board was set up for large and established companies.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
12. Compared with the Main Board's basic listing requirements,
- the operating history requirement for Growth Enterprise Market applicants is ____(1)____.
 - the market capitalization requirement for Growth Enterprise Market applicants is ____(2)____.
- | | (1) | (2) |
|----|----------|----------|
| A. | looser | stricter |
| B. | stricter | looser |
| C. | stricter | stricter |
| D. | looser | looser |
13. Which of the following statements about the Hang Seng Index is not correct?
- A. Its sub-indexes are: Finance, Utilities, Properties, and Commerce and Industry.
 - B. It measures the performance of the largest and most liquid companies listed in Hong Kong.
 - C. It includes 50 stocks listed on the Growth Enterprise Market.
 - D. It serves as a benchmark of the general performance of the Hong Kong stock market.
14. Olivia is considering buying a new oven for her restaurant. The oven costs \$25,000. It can be used for three years and will be worthless afterwards. Olivia estimates that it can bring net cash inflows of \$10,000, \$10,000 and \$8,000 at the end of the next three years, respectively. Given that Olivia's cost of capital is 5% per annum, which of the following statements are correct?
- (1) Olivia should buy the oven based on the net present value.
 - (2) If the oven's cost increases by \$1,000, Olivia should not buy the oven.
 - (3) If the oven's cost increases by \$800 but the supplier is willing to buy back the oven for \$500 after three years, Olivia should buy the oven.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
15. Which of the following statements about an instalment loan is not correct?
- A. The borrower needs to make repayments regularly.
 - B. Interest on an instalment loan is usually lower than that on a bank overdraft.
 - C. The borrower needs to repay the loan principal as a lump sum at maturity.
 - D. The borrower may not be able to take out an instalment loan if he has a poor personal credit record.

16. Which of the following is not a reason why many consumers use credit cards nowadays?
- A. They can receive discounts in certain shops.
 - B. They do not need to carry large sums of cash to buy expensive items.
 - C. They can make purchases overseas without carrying other currencies.
 - D. They can pay their credit card bill whenever they want without paying any interest.
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17. By having a good personal credit record, a consumer can
- A. receive more gifts when applying for credit cards.
 - B. obtain loans at lower interest rates.
 - C. borrow as much money as he wants.
 - D. All of the above
- ☐
18. Which of the following statements about the risk and return of bonds are correct?
- (1) Bond investment will not result in a loss.
 - (2) If investors plan to hold the bonds to maturity, the expected return on the bonds is fixed.
 - (3) Some bonds may offer a higher rate of return than common stock.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
- ☐
19. Assuming other factors are constant, which of the following conditions would usually cause the stock price of a Hong Kong airline to fall?
- (1) One of the airline's planes crashes and kills all of the passengers on board.
 - (2) More Hong Kong people travel overseas as the economy improves.
 - (3) The airline reduces its dividend payouts.
- A. (2) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)
- ☐
20. If the Hang Seng Index (HSI) dropped 10% yesterday, which of the following statements is most likely to be true?
- A. The prices of most HSI constituents decreased yesterday.
 - B. The value of the Hong Kong Dollar dropped 10% yesterday.
 - C. All investors in the stock market suffered a loss yesterday.
 - D. HSI will increase today.
- ☐