

## BAFI1005 Final Assessment Semester 1 2023

### Submission Instruction:

- You will be given three submission points for the final submission.

Submission point 1: COVERSHEET

Submission point 2: Certificate of academic integrity completion

Submission point 3: Final Assessment

### PART 1: ACADEMIC INTEGRITY MODULE (3 marks)

Complete the Academic integrity micro-credential: <https://www.rmit.edu.au/study-with-us/levels-of-study/short-courses/academic-integrity-awareness>

You will receive a certificate when you complete the micro-credential and Submit the certificate under submission point 2.

### PART 2: SCENARIO ANALYSIS (47 marks)

Please submit your final assessment under submission point 3

You are a financial advisor who regularly educates new clients about how market and economic systems work to take the mystery and fear out of investing. You have found that when clients understand how things work behind the scenes, they feel more confident in continuing to invest throughout their lives, regardless of the doom and gloom that they may see or hear in the news. In this report, you are asked to address questions that your new client Jay has and help him to have a better understanding of financial markets.

**1. Understanding Different Asset Classes**

**(TOTAL 15 MARKS)**

a) If Daniel is a risk-seeking individual who is looking for high-return investment opportunities, there are numerous ways he can invest his money. Can you describe three distinct types of financial assets that you offer which would be suitable for him? For each of the financial assets you suggest, provide Characteristics, risk, and potential returns with an example

(6 marks)

b) The development bank of Singapore Limited (DBS) offers a bill facility to corporate clients. The bank website explains the terms and conditions of Bills of Exchange.

<https://www.dbs.com.sg/corporate/terms/application-for-outward-bill-collection-da/dp-terms-and-conditions>

Use a diagram to describe the structure of a bank bill. In your explanation, clearly distinguish the roles of the parties associated with the bill issue.

(5 marks)

c) In 2021, the mining company Silver Mines Limited announced a capital raising plan to fund its exploration and development activities. The company offered new shares to existing shareholders through a renounceable rights issue. Under the terms of the rights issue, existing shareholders were given the option to buy new shares at a discounted price of AUD 0.11 per share. These renounceable rights allowed shareholders to either exercise their right to buy new shares at the discounted price, or sell their rights to buy to another investor. but it also resulted in a temporary drop in the company's share price.

- Explain the renounceable rights issue of ordinary shares and discuss the advantages and disadvantages. (2 marks)

- Explain dilute and provide a reason why it led to drop of company share price

(2 marks)

**2. Central Banks, Monetary Policy and Interest Rates**

**(TOTAL 14 MARKS)**

a) Singapore is a country that has a complex monetary policy framework, which is designed to manage its unique economic circumstances. The Monetary Authority of Singapore (MAS) uses a combination of exchange rate management, interest rate policy, and macroprudential regulation to maintain price stability and promote economic growth, describe the intermediate target for monetary policy, and explain the implementation process of the monetary policy in this country. Give examples of different economic indicators that may give an insight into the future stages of a business cycle.

**(6 marks)**

b) In 8<sup>th</sup> March 2023, the Reserve Bank of Australia (RBA) increased the cash rate by 0.25%. The current cash rate is 3.60%. Explain to Daniel how the high cash rate affects imports and exports in Australia and provide an example for your reason.

**(4 Marks)**

c) Obtain monthly data from Fred (<https://fred.stlouisfed.org/>) and plot the interest rates on 3-month Treasury bill (TB3MS) and 10-year Government bond yield (IRLTLT01USM156N) from Jan 2018. Determine the shape of the yield curve by using one of the interest rate theories you know and share your opinion on whether the Australian economy is heading for a boom or for a recession. Explain your choice.

**(4 marks)**

**3. Derivative Securities****(TOTAL 8 MARKS)**

a) Daniel is cognizant of the fact that the primary function of a futures contract is to manage risk exposures. In order to elaborate on this risk management function, it may be beneficial to consider the perspective of a Qantas airline manager and provide an illustrative example of how a futures contract achieves this purpose.

**(2 marks)**

b) Daniel purchased Amazon shares in August at a price of \$140 per share, but the value dropped to \$136.45 per share by mid-September due to the volatile nature of the stock market. As a result, Daniel is now looking to mitigate his risk through the use of option contracts. He seeks your guidance on how to use these contracts effectively. A table of various options contracts, each containing 100 shares, is provided below for your consideration

Strike	Call premium	Moneyness	Put premium	Moneyness
\$125	\$10.05		\$0.01	
\$130	\$3.65		\$0.05	
\$136	\$0.7		\$0.99	
\$145	\$0.05		\$10.48	

(i) Please specify the moneyness of the above options. Are they in the money, at the money or out of the money?

**(3 marks)**

(ii) Explain the type of risk that Daniel is facing and which option is your suggestion to control his risk, provide your reason and explain it.

**(3 marks)**

**4. Fund Management****(TOTAL 10 MARKS)**

a) Managed funds are often categorised by the type of investments purchased by the fund. These include capital stable funds, balanced growth funds and managed capital growth funds. For each of these funds, discuss the types of investments the fund might accumulate and explain the purpose of the investment strategies. If Jay is identified as a risk-averse investor, which type of fund would you recommend Jay to consider investing in?

**(3 marks)**

b) The risk-free rate in Australia in April 2023 was 3.60%. Based on the following information for three different funds A, B and C in Australia. Calculate the Coefficient of variation, Sharpe and Jensen Indices of performance for these funds and interpret the results.

**(5 marks)**

Fund	Average return (%)	Variance(%)	Beta
Market	6.65	–	–
Fund A	9.74	100.94	0.82
Fund B	8.09	87.19	1.22
Fund C	7.80	65.34	0.95

c) Obtain information on the following two funds:

- Colonial First State Developing Companies Fund
- Vanguard Australian Shares High Yield Fund

Compare the risks to investors presented by each of these funds and identify the types of investors that would favour these funds.

**(2 marks)****(TOTAL 15+14+8+10 = 47 MARKS)**