**Section A: Multiple Choice Questions (@1, total 10 marks)**

1. Which of the following is not a financial product?
2. Insurance.
3. Treasury bills.
4. Cash.
5. Mutual funds.

Level of difficulty: \*

1. What is the purpose of opening a current account?
2. Saving money.
3. Issuing cheques.
4. Earn interest.
5. Credit card payment.

Level of difficulty: \*

1. The maximum protection for deposits in each license bank in Hong Kong under the Deposit Protection Scheme is:
2. $100,000.
3. $500,000.
4. $1,000,000.
5. $3,000,000.

Level of difficulty: \*

1. Which of the following types of deposits is not protected by Deposit Protection Scheme?
2. Current account deposit in HSBC.
3. Saving deposit in Bank of China.
4. 1-year fixed deposit in Citibank.
5. 10-year fixed deposit in Standard Chartered Bank.

Level of difficulty: \*

1. The following are reasons for buying insurance except:
2. Receive compensation when accident occurs.
3. Earn extra income when accident occurs.
4. Protection against liability to third parties.
5. Reserve education fund for children.

Level of difficulty: \*\*

1. Which of the following is not the need for life insurance?
2. Dependent’s living expenses.
3. Educational funds.
4. Retirement income.
5. Medical expenses.

Level of difficulty: \*

1. Which of the following medical expenses is not covered by a medical insurance.
2. Cancer.
3. Cosmetic surgery.
4. Bird flu.
5. Heart disease.

Level of difficulty: \*

1. The value of an investment-linked insurance depends on \_\_\_\_\_\_\_\_\_\_\_ of its underlying investment portfolio.
2. risk.
3. types of stocks.
4. performance.
5. rights.

Level of difficulty: \*\*

1. One of the features of iBond is:
2. fixed interest rate.
3. interest rate is varied depends on Consumer Price Index.
4. issued at discount.
5. high risk.

Level of difficulty: \*\*\*

1. Which of the following is the characteristic of mutual funds?
2. Professionally managed.
3. High risk.
4. Generally issued by commercial banks.
5. There is a maturity date.

Level of difficulty: \*\*

**Section B: Short Questions (20 marks)**

|  |  |  |  |
| --- | --- | --- | --- |
| \*\*\* |  | Mr. Chan had three deposits as below:   1. HK$1,000,000 placed in savings account in Bank of China. 2. AUD10,000 placed in savings account in Citibank. 3. HK$300,000 placed in the current account in Bank of China (Shenzhen Branch).   Discuss whether these three deposits will be protected by Deposit Protection Scheme? | (9 marks) |
|  |  |  |  |
| \*\* |  | Explain the relationship between risk and return of investment. | (5 marks) |
|  |  |  |  |
| \* |  | Briefly describe the characteristics of financial products. | (6 marks) |
|  |  |  |  |

**Suggested Solutions**

**Section A: MCQs**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 1. C | 1. B | 1. B | 1. D | 1. B |
| 1. D | 1. B | 1. C | 1. B | 1. A |

**Section B: Short Questions.**

**Question 1**

|  |  |
| --- | --- |
| 1. HK$1,000,000 placed in savings account in Bank of China.   Yes, it is a deposit in a licensed bank in HK but the protection is limited to a limit of HK$500,000.   1. AUD10,000 placed in savings account in Citibank.   Yes, all the sum is protected as the HKD equivalent is below HK$500,000 and is placed in a licensed bank in HK.   1. HK$300,000 placed in the current account of Bank of China (Shenzhen Branch).   No, because the sum is not placed in a licensed bank in HK. | (@3, total 9 marks) |
|  |  |
| **Question 2**  The following graph provides a perspective on the relationship between the risks and returns of several investment assets. |  |
| They are positively correlated. i.e. the higher the risk of an investment, the higher its return and vice versa. For example, an investment in bonds may enjoy a higher return than a bank deposit and there is a higher risk of not getting the money back. | (5 marks) |
|  |  |
| **Question 3**  Three characteristics are common to all financial products. These are yield, risk and liquidity.   * Yield is the amount of cash the owners of a financial product receive or the rate of return on a financial asset. * Risk is the possibility of loss that may prevent adequate return on a financial product. * Liquidity is the ability of a financial product to be converted into cash.   Yield and liquidity are inversely related while yield and risk are directly related. | (@2, total 6 marks) |