Core Unit 4 - Financing and Investing for Retirement Provision

Assignment 2

*(Part 2 – Risk Management)*

*Recommended Time: 1 hour*

1. **In the context of equity markets, list the ways in which a company can issue shares in order to raise capital, and give a short statement regarding how each method operates.**

**10 marks**

Relevant section of the manual is Part 2 Chapter 1.3.

Format: descriptive

Answer should cover:

* Offer for subscription
* Offer for sale
* Placing
* Introduction
* Rights issue

1. **Managing currency risk is important in order to mitigate the impact of adverse currency movements. Outline the following:**
2. **The two main methods of managing currency risk**
3. **The techniques active managers may use to manage currency risk**

**10 marks**

Relevant section of the manual is Part 2 Chapter 3.3.

Format: explain/describe

Answer should cover:

* Key features of active management and passive management
* Methods used to predict the course of currency movements

1. **Pension schemes typically hold the majority of their assets in equities and bonds.**

**Briefly describe:**

1. **how bonds compare to equities in terms of risk and return**
2. **the factors that affect bond values**

**10 marks**

Relevant section of the manual is Part 2 Chapter 2.1.

Format: descriptive, with use of bulleting acceptable in part b)

Answer should cover:

* lower risk but lower return
* interest rates and inflation
* Economic outlook
* Credit environment
* Supply and demand

1. **Describe the characteristics of infrastructure investment.**

**5 marks**

Relevant section of the manual is Part 1 Chapter 3.6.

Format: descriptive prose

Answer should cover:

* Economic infrastructure – how it operates, how it is financed, sector example
* Social infrastructure – how it operates, how it is financed

1. **Why might a company choose to list its shares in a different country to the one in which it is headquartered and what factors would it take account of?**

**5 marks**

Relevant section of the manual is Part 2 Chapter 1.2.

Format: list or describe

Answer should cover:

* Access to wider/larger investor base
* Dual listing
* Risk and volatility
* Emerging markets
* Currency fluctuations

1. **Briefly describe four common types of derivatives and explain why derivatives are different in nature to the main asset classes.**

**10 marks**

Relevant section of the manual is Part 2 Chapter 4.1.

Format: descriptive

Answer should cover:

* Futures and forwards
* Options
* Swaps
* Contracts for difference
* Buy/sell derivative linked to the underlying asset rather than buy/sell the asset itself
* Derivatives provide exposure to a market or sector