FINAL EXAM
FIRST SEMESTER SESSION 2012/2013

COURSE CODE / NAME : BWFS3013 / ISLAMIC INVESTMENT
DATE : 15 JANUARY 2013 (TUESDAY)
TIME : 2.30 ~ 5.00PM ( 2½ HOURS)
VENUE : DMS

INSTRUCTION :

1. This question paper contains FIVE (5) questions in FOUR (4) printed pages excluding the cover page.
2. Answer ALL questions in the answers booklet provided.

MATRIC NO : ____________________________ (with word)
            ____________________________ (with number)
IDENTIFICATION CARD NO : ____________________________
LECTURER : ____________________________
GROUP : ____________________________ TABLE NO : ____________________________

DO NOT OPEN THIS EXAMINATION PAPER
UNTIL INSTRUCTED

CONFIDENTIAL
QUESTION ONE (20 MARKS)

1. In investment environment, there are classes of financial assets and securities as well as the market players.
   
   (i) Explain the terms real asset and financial assets. (4 marks)
   
   (ii) Explain TWO (2) reasons why do Muslims need a separate financial system. (2 marks)
   
   (iii) Islam encourages the preservation of wealth through protection of ownership. Give ONE (1) example of the method. (3 marks)

2. In modern portfolio theory, the risk and return is the most important issue in investment decision for a portfolio’s securities.
   
   (i) Assume that a stock was selling at RM50 a share at the beginning of the period, paid a RM2 dividend, and sold at RM54 at the end of the period, which assume to be a year. Calculate the return realized over the period. (3 marks)
   
   (ii) Give ONE (1) important reason of using the Sharpe Measure in investment decision. (2 marks)
   
   (iii) Based on the following diagram, there are three basic risk preferences. Define each of the following term:
   
   a) Risk Averse investor
   
   b) Risk- indifferent investor
   
   c) Risk-seeking investor

   (6 marks)

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[Diagram showing different risk preferences with Required Return on the Y-axis and Risk on the X-axis]
QUESTION TWO (20 MARKS)

1. Covariance and the correlation coefficient provide a measure of the returns on two assets to vary. Assume you want to select the less risky of two alternative investments, X and Y. Which of the following investments is less riskier? Why?

<table>
<thead>
<tr>
<th>Statistics</th>
<th>Investment X</th>
<th>Investment Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Average return</td>
<td>12%</td>
<td>20%</td>
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<tr>
<td>(2) Standard deviation</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>(3) Coefficient of variation</td>
<td>0.75</td>
<td>0.50</td>
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</table>

(3 marks)

2. Capital Asset Pricing Model (CAPM) is all securities that are related to a single underlying factor and it could explain systematic risk.

(i) Give the formula used in determining the return using CAPM. (3 marks)

(ii) Show TWO (2) differences between Arbitrage Pricing Theory (APT) and Capital Asset Pricing Model (CAPM). (6 marks)

3. Relationship between price and various determinants of value for similar firms is compared by using the Dividend Valuation Model and Price per Earning (P/E) ratio.

(i) Axis Inc is expected to pay a dividend of RM1.50 per share next year. The required rate of return is 16%, and dividends are expected to grow at 7% per year. By using dividend valuation model, find the intrinsic value of the company’s common shares. (4 marks)

(ii) Given the following information,

\[ E_0 = RM2.50 \quad g = 0 \quad k = 12.5\% \]

Calculate

(a) Price, \( P_0 \) (4 marks)

(b) P/E ratio for this company. (4 marks)
QUESTION THREE (25 MARKS)

1. *Bay Al-Dayn* (Sale of debt) and *Bay Al-Inah* (Sale and buyback) are the controversial contract in Malaysian and Middle Eastern. Both are mostly applied in *Sukuk*.

   (i) Explain **THREE (3)** reasons why Middle Eastern scholars have issues on the matter.  
       (9 marks)

   (ii) Give **THREE (3)** alternatives application of *Bay Al-Dayn* and *Bay Al-Inah* in Islamic Bonds.  
        (3 marks)

2. Islamic Private Equity (IPE) is similar to Islamic Venture Capital except that a private equity arrangement focuses mainly on later stage financing.

   (i) Discuss **TWO (2)** issues to be considered by the investors before investing in Islamic IPE.  
       (6 marks)

   (ii) Give **TWO (2)** basic conditions for investments.  
        (4 marks)

   (iii) List **THREE (3)** Shariah Principles involved in Islamic Venture Capital.  
        (3 marks)
QUESTION FOUR (25 MARKS)

1. Calculate the price of the following bonds.
   
   (i) A 10-year bond has a 6% coupon rate and RM1000 face value. The required return is 8% per annum. Calculate the price of the bond? (6 marks)
   
   (ii) A 10-year bond has a 6% coupon rate and a RM1000 face value. The required return is 8% semi-annually. Calculate the price of the bond? (5 marks)

2. Explain TWO (2) similarities of sukuk and conventional bond. (6 marks)

3. There are THREE(3) main bases types of sukuk structures. First, the underlying contracts in the sukuk structure. Secondly, the nature and type of asset represented by the sukuk. Finally the commercial features of the sukuk.
   
   (i) State THREE (3) features in the underlying contracts in the sukuk structure. Give ONE (1) example for each of the contract. (6 marks)
   
   (ii) List TWO (2) natures and types of asset represented by the sukuk. (2 marks)

QUESTION FIVE (10 MARKS)

1. Explain the futures market strategies normally used by speculators and hedgers. (4 marks)

2. Give TWO (2) characteristics of Options trading. (2 marks)

3. Explain TWO (2) Shariah opinions on conventional derivatives transaction. (4 marks)

END OF QUESTIONS
FORMULA

\[ V_0 = \sum_{t=1}^{\infty} \frac{D_t}{(1 + k)^t} \]

\[ V_o = \frac{D}{k} \]

\[ PVGO = \frac{D_o(1+g) E_1}{(k-g)} \frac{k}{k} \]

\[ g = ROE \times b \]

\[ P_0 = \frac{D_1}{k-g} \]

\[ P_0 = \frac{E_1}{k} + PVGO \]

\[ P_B = \sum_{t=1}^{T} C_t \frac{1}{(1 + r)^t} + \frac{Parvalue_T}{(1 + r)^T} \]

\[ FV_n = PV(1 + i)^n \text{ or } PV(FVIF_{i,n}) \]

\[ FV_n = PV \left(1 + \frac{i}{m}\right)^{mn} \]

\[ PV = \frac{1}{(1 + i)^n} \]
### TABLE A.3: Present-Value Interest Factors for One Dollar, PV/PF

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<thead>
<tr>
<th>Period</th>
<th>1%</th>
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*PV/PF is zero to three decimal places.

### TABLE A.4: Present-Value Interest Factors for a One-Dollar Annuity, PV/IFA

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