

Chapter 4

Basics of Personal Financial Management



Section 3

Personal Financial Planning and Investments

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|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. B | 2. B | 3. D | 4. A | 5. B | 6. A | 7. B | 8. D | 9. C | 10. D |
| 11. B | 12. A | 13. B | 14. D | 15. C | 16. B | 17. A | 18. B | 19. A | 20. C |
| 21. C | 22. A | 23. D | 24. B | 25. A | 26. D | 27. C | 28. D | 29. A | 30. A |
| 31. C | | | | | | | | | |

1. **B**

(1) is incorrect. Besides dividends, return can also refer to the capital gains and interest earned from investments.

(2) is correct. A positive return means the ending price of investment is higher than its beginning price.

(3) is incorrect. A low investment risk does not guarantee a return. When there is a loss, the return is negative.
2. **B**

(1) is correct. By definition, risk is the uncertainty of outcome.

(2) is correct. When choosing among investments with similar expected returns, investors will prefer the ones with the lowest risks. This is called “risk averse”.

(3) is incorrect. High risk may bring high return. Although people are generally risk averse, some would prefer having a higher chance to gain more.
3. **D**

People’s risk tolerance levels differ. Some may be willing to bear more risks in order to get a higher return but some may not.

A is incorrect. There are low risks but not no risks in deposits. The expected return in deposits is low.

B is incorrect. The risk in stock is higher and the potential return is also higher.

C is incorrect. As mentioned, different people have different willingness towards risk and return. Some but not all people are willing to bear more risks in order to get a higher return.
4. **A**

Given that Joseph would like to keep his principal and has a short investment time limit, it is appropriate for him to invest in financial products with the lowest risk. Thus, time deposits are suitable for him.

B is incorrect. Joseph is likely to suffer a loss from shares given his short investment time frame. He may not have returns one year later.

C is incorrect. The risk of investing in warrants is very high and thus it is not suitable.

D is incorrect. Joseph cannot earn any interests when he puts his capital in current accounts.

5. **B**
B is correct. As shares are not redeemable and small companies have a higher risk of liquidation, it is the most risky option.
A is incorrect. Government bonds are redeemable on the due date and are of low risk.
C is incorrect. Compared with shares issued by small companies (option B), large corporations have larger scales of operation and thus a lower risk of liquidation.
D is incorrect. Savings deposit is of very low risk.
6. **A**
(1) is correct. To generate a higher return, investors usually need to invest in financial products with higher risk.
(2) is correct. Even if the investors invest in financial products with higher risks, they may not yield higher returns but suffer losses on their investment.
(3) is incorrect. In some emerging markets, the positive relationship between risk and return does not always hold. The market prices of the securities in those markets cannot fully reflect all available public information.
7. **B**
(1) is correct. Among different financial goals, the most common one is to maximise one's wealth.
(2) is incorrect. Individuals would like to minimise rather than maximise the tax paid to the government.
(3) is correct. People need to consider their post-retirement consumption needs.
8. **D**
(1) is correct. Young singles will have credit card debts if they have over-consumption problems. Thus, solving credit card debts problems is one of their possible financial goals.
(2) is correct. Young singles start accumulating and creating wealth through working, saving and investing.
(3) is correct. Young singles will start saving for marriage since it incurs a large amount of expenses, such as organising a wedding ceremony, buying a flat and going for honeymoon travel.
9. **C**
He is considered young and has no intention of retiring at this moment. Thus, he needs not save for medical expenses at such an early stage.
A is incorrect. It is one of his major financial needs. Insurance is taken out to protect his earning abilities and prevent possible financial burdens.
B is incorrect. It is one of his major financial needs. Since he has two children, he needs to save for their educational expenses.
D is incorrect. It is one of his major financial needs. He needs to save for major purchases as he plans to buy a flat four years later.

10. **D**
 (1) and (2) are correct. Jeffrey is at the stage of a young single. He needs to work for many years till retirement. Thus, it is of paramount importance for him to take out insurance to ensure his earning abilities. He also needs to accumulate and create wealth for his life.
 (3) is correct. Jeffery also needs to plan for his investments by utilising his capital. This aims to accumulate wealth in order to achieve his financial goals like setting up his own business.
11. **B**
 (1) is incorrect while (2) is correct. As Mr. Lee is going to retire, his major financial needs do not include protecting his earning ability. The most important financial need for him at this stage is to save for retirement.
 (3) is incorrect. Mr. Lee's children have grown up already. Thus, he needs not save much for his children's educational expenses.
12. **A**
 (1) is correct. Mr. Lee may not have sufficient income to pay for his daily expenditures after retirement. He thus needs to liquidate his personal assets to complement his income.
 (2) is correct. Implementing financial planning helps Mr. Lee cope with shortage of cash and thus maintain living standards.
 (3) is incorrect. Mr. Lee's personal need for insurance refers to medical insurance mainly. He may have more medical expenses when becoming old. Yet, the insurance for children gradually decreases as his children have grown up and become financially independent.
13. **B**
 (1) is incorrect. Security guards are required to join the MPF scheme.
 (2) is correct while (3) is incorrect. All self-employed persons except self-employed hawkers are required to join the MPF scheme as well. Thus, self-employed taxi-drivers need to enrol in the scheme.
14. **D**
 Employees have the freedom to choose the funds in which they would like to invest.
 A is incorrect. Employees enrolled in the scheme can only withdraw their accrued benefits at the age of 65 instead of 60. Only in the special case when someone retires early at the age of 60 can the accrued benefits be withdrawn early.
 B is incorrect. Not all employees covered by the scheme are required to contribute at least 5% of their income. Employees with a monthly salary of HK \$7,100 or below need not contribute to the scheme (as of 1 November 2013).

Mandatory Contributions (as of 1 June 2014)		
Monthly Income	Employer portion	Employee portion
< \$7,100	Income \times 5%	No contributions required
\$7,100 – \$30,000	Income \times 5%	Income \times 5%
> \$30,000	\$1,500	\$1,500

C is incorrect. Losses suffered from investments are borne by employees because they are the ones who choose the funds in which they invest for their portions of contributions.

15. **C**
Domestic helpers are not required to join the MPF scheme. Construction workers and workers working in the catering industry are required to join the scheme regardless of their working periods. For (3), the shop assistant is required to join the scheme even though his monthly salary is lower than HK\$7,100.
16. **B**
(1) is incorrect. After the implementation of Employee Choice Agreement, employees can transfer their accrued benefits to another scheme or MPF trustees ONCE every year instead of twice a year.
(2) is correct. According to the regulations as of 1 June 2014, employees with income over \$30,000 need to contribute a maximum amount of HK\$1,500 (HK\$30,000 x 5%).
(3) is incorrect. Employees who are employed for a period of not fewer than 60 days are all required to enrol in the scheme regardless of the amount of salary earned (except exempted persons such as self-employed hawkers and domestic workers).
17. **A**
As long as Jacky has been employed for a continuous period of not fewer than 60 days, he is required to join the Mandatory Provident Fund (MPF) scheme. He is not required to contribute to his account but his employer has to.
18. **B**
(1) is correct. Given that Jacky's salary is lower than HK \$7,100, he needs not make a mandatory contribution to the scheme (as of 1 November 2013).
(2) is incorrect. All self-employed persons except hawkers are required to join the scheme within 60 days after they have become self-employed.
(3) is correct. Permanent departure from Hong Kong is a condition which allows an early withdrawal of the accrued benefits.
19. **A**
(1) and (2) are correct. It is true according to the regulations of the MPF system.
(3) is incorrect. An emergent need of money does not always enable the early withdrawal of the money unless the situations stated in the regulations of the MPF system, such as terminal illnesses or total incapacity, occur.
20. **C**
(1) is incorrect. Domestic helpers are not required to join the MPF scheme irrespective of the number of years for which they have been employed.
(2) and (3) are correct. Workers in construction and catering industries are required to join the MPF scheme regardless of their employment period.
21. **C**
(1) is correct. Employees can make extra contributions to the scheme apart from their regular mandatory contributions.
(2) is incorrect. Some funds in MPF are of high risks. Employees make their choices of the funds in which they invest.
(3) is incorrect. Employees have to bear all their own investment risks but never others'.

22. **A**
- (1) is correct. Investors have the right to ask for the rationale behind the investment recommendation given by banks and brokers in order to make the right choice for their investments and not to be misled.
- (2) is correct. They have the right to complain if they suffer losses due to the mishandling of their investments by authorised financial institutions such as seeking compensations from the Investor Compensation Fund.
- (3) is incorrect. Giving clear instructions to their brokers and financial partners is a responsibility of an investor instead of a right.
23. **D**
- (1) is correct. It is the responsibility of investors to fully understand the contract terms before signing. This ensures that investors know the features, return and risk characteristics of their investment choices.
- (2) is correct. Investors are responsible for bearing risks of their investment choices.
- (3) is correct. Investors should monitor the activities in their accounts regularly.
24. **B**
- Zoe is just at the stage of a young single. She does not have much money and property so it is not urgent for her to consider the inheritance of her own properties. At this stage, she should accumulate wealth for later stages like home purchases and further studies.
25. **A**
- Bondholders are like creditors of a company. They can receive periodic payments and get back the principals. Besides, the risk of bond investment is lower generally. Unlike shares, bond prices do not fluctuate significantly. Bondholders can also claim their capitals back earlier than shareholders.
26. **D**
- If a scheme member suffers from an illness which may reduce his/her life expectancy to less than 12 months and has related medical certificates, he/she can withdraw from the scheme before retirement.
- A is incorrect. Employees who temporarily depart from Hong Kong are not qualified to withdraw their accrued amounts in the scheme early .
- B is incorrect. A withdrawal is only allowed under total incapacity.
- C is incorrect. Only a person whose balance amount is not more than \$5,000, with no contribution made within 12 months are entitled to exercise early withdrawal.
27. **C**
- (1) is correct. In fact, exempted persons include domestic employees, self-employed hawkers, people covered by statutory pension, members of occupational retirement schemes with MPF exemption certificates, and foreigners who enter Hong Kong for employment of not more than 13 months, or those who are covered by overseas retirement schemes.
- (2) is incorrect. Both employers and employees can make extra voluntary contribution.
- (3) is incorrect. Not all scheme members have to make the mandatory contribution of 5% income. Employees with a monthly salary of smaller than HK\$7,100 need not make contributions to the scheme.

28. **D**
Some bonds can be traded in the market. When bond price rises, bondholders can gain. It is called bond price appreciation.
A and B are incorrect. Bondholders are not entitled to get dividends.
C is incorrect. Bondholders get a fixed interest, which is not related to the net profit.
29. **A**
(1) is correct. Accrued benefits can be withdrawn by people who retire early at the age of 60 or above.
(2) is incorrect. Only those whose account balances are \$5,000 or less, with no contribution made within 12 months, can withdraw the accrued benefits early.
(3) is incorrect. Candy can withdraw the amount early only when she departs from Hong Kong permanently.
30. **A**
(1) is correct. Although an employee needs not contribute to his or her MPF account if the monthly salary is lower than \$7,100, the employer has to do so.
(2) is incorrect. Employee needs not contribute to his or her MPF account if the monthly salary is lower than \$7,100.
(3) is incorrect. A self-employed taxi driver with a monthly salary higher than or equal to \$7,100 should contribute to the MPF account.
31. **C**
For Mr. Chan (an employee), the employer will also contribute \$1,000 into Mr. Chan's account. The total mandatory monthly contribution is \$2,000 for him. For Mr. Wong, the mandatory contribution is \$1,000 only.
A is correct. Amount they have to contribute = $20,000 \times 5\% = \$1,000$
B is correct. They can make voluntary contributions to their accounts.
D is correct. Both employees and self-employed persons have the right to change the allocation of their contributions in the MPF scheme.