

Yield curves						
Meaning and guidance	<i>Yield curves plot the relationship between interest rates and the remaining period to maturity for financial instruments such as bonds. The interest yield on a bond of say 10 years will differ depending on the time left to maturity. Generally, the longer</i>					
		SA	A	U	D	SD
Question 5(a)	Plotting reliable yield curves for bonds in Mozambique is limited by the fact that there are few bond issues quoted on the Mozambique Stock Exchange. This is because it will be difficult to find similar companies with bonds quoted on the Mozambique Stock	10	5	4	1	
		50%	25%	20%	5%	
Question 5(b)	Plotting reliable yield curves for bonds is limited by the fact that there are no issues of these instruments in the long term-e.g. There are no issues with terms greater than 10 years.	4	7	6	2	1
		20%	35%	30%	10%	5%
Question 5(c)	Inconsistencies in the availability of some economic indicators such as Monetary authority bills and Treasury bills (e.g. there are periods in which there are no issues of TBs or MABs) makes it difficult to plot reliable yield curves for bonds indexed to	3	10	4	2	1
		15%	50%	20%	10%	5%
Question 5(d)	The absence of credit rating agencies in Mozambique makes it difficult to plot reliable yield curves of government bonds and corporate bonds over the long term because there is no basis to classify any two entities as being similar and falling within the	3	10	4	2	1
		15%	50%	20%	10%	5%
Exposure to interest rate risk						
Meaning and guidance	<i>If a financial instrument is exposed to interest rate risk, then, as market interest rates change, the instrument's interest rate does not change to reflect the market movements. For example, if a bond is indexed to treasury bills, and new bond issues ar</i>					
		SA	A	U	D	SD
Question 6(a)	Government bonds and corporate bonds are exposed to interest rate risk because of the existence of many indices that are used to price bonds (i.e. treasury bill rates index, monetary authority bills rates(TAMs) index, Maibor index and Inflation index). A	3	8	6	2	1
		15%	40%	30%	10%	5%
Question 6(b)	The existence of many economic indicators (Maibor, Treasury Bills, TAMs and Inflation) makes it difficult to decide on the appropriate interest rate to use in present value based measures of fair value.	2	10	2	4	2
		10%	50%	10%	20%	10%
Public awareness in the activities of the Mozambique stock exchange						
Meaning and guidance	<i>Public awareness of the stock exchange includes general knowledge of the functions of the stock exchange and is normally reflected in volumes of transactions on the stock exchange undertaken by the general public.</i>					
		SA	A	U	D	SD
Question 7(a)	Public awareness of the activities and functions of the Mozambique Stock Exchange and the capital market in general is very low as evidenced by minimal participation of the public in the purchase and sale of shares and bonds on the Mozambique Stock Excha	10	10			
		50%	50%			
Question 7(b)	Information for use in valuation techniques such as present value analysis cannot be obtained without significant cost and effort. For example, information on the historical trend of Maibor, treasury bills interest rates and MAB interest rates for the pas	10	4	4	1	1
		50%	20%	20%	5%	
Volatility						
Meaning and guidance	<i>If something is volatile, it is unstable. It moves in either direction up or down in an unpredictable manner. Estimating future movements is difficult</i>					
		SA	A	U	D	SD
Question 8(a)	The use of fair values will result in volatile earnings and equity.	4	14	2		
		20%	70%	10%		
Question 8(b)	Profit and dividends of most companies (in Mozambique) are significantly volatile and this make it difficult to estimate future movements in the earnings and dividends.	2	12	4	2	
		10%	60%	20%	10%	
Question 8(c)	The main economic indicators (Maibor, interest on treasury bills and monetary authority bills and inflation rate) have been significantly volatile in the last 5 years.	6	13		1	
		30%	65%		5%	
Question 8(d)	It is difficult to reliably estimate the future rates(eg for the next 10 years) of Maibor, interest rate on treasury bills, monetary authority bills and inflation rate owing to the unstable movements in the last five years.	8	9	3		
		40%	45%	15%		

20

20

20

20

20

20

20

20

20

20

20

20