



Name:

SID:

Session:

Week 4 Savings



Question 1 True/False

A. The rate of return on liquid assets is relatively high compared to other types of investments.

False

- High liquidity is beneficial
- Little compensation will be offered
- Lower rate of return

Question 1 True/False

- B. The annual percentage yield (APY) formula considers compounding when determining an interest rate.

$$AB = \left(1 + \frac{i}{n}\right)^n - 1$$

- The AER is based on the assumption that interest is accumulated in the account and is not withdrawn

True



Question 1 True/False

- c. You should invest in long-term CDs when you expect interest rates to fall.
- During the contract period, the interest rate of a CD is fixed.
 - If interest rate is high now and expected to fall, investing in long-term CDs allows you to keep the high interest rate

True

A decorative vertical bar on the left side of the slide, featuring a gold color and a pattern of various financial symbols including the dollar sign (\$), yen sign (¥), and Euro sign (€).

Question 1 True/False

- D. The more frequently a bank compounds interest, the higher the stated interest rate will be.

False

Question 2

- Ho is now saving his money HK\$2000 per month in a regular savings account of HSBC which offers him interest rate of 4%p.a. compound monthly.
- A bank teller suggest him to setup a monthly saving plan. The details are as follow
 - Maturity of 5 years
 - Fixed interest rate 8%p.a. compound quarterly
 - A handling fee equivalent to 2% of the total investment amount for early withdrawal
- If he needs to use the money 4 years from now, should he take the offer?

Question 2

- As he needs to use the money 4 years from now, the max duration for depositing his money is 4 years.
- Amount accumulated from the regular savings account

$$\$103919 = \$2000 \times \frac{(1 + \frac{4\%}{12})^{48} - 1}{\frac{4\%}{12}}$$

- Amount accumulated from the monthly savings plan

$$\$111835 = \$6000 \times \frac{(1 + \frac{8\%}{4})^{16} - 1}{\frac{8\%}{4}}$$

Question 2

- As he needs to withdraw the money before the maturity, a handling fee will be charged.

$$\$111835 \times 2\% = \$2237$$

- Net return

$$\$111835 - \$2237 = \$109598 > \$103919$$

- He should take the offer.