



Unit 5: Other Markets and Investments

Delivery Guide

Other Markets and Investments

Unit Aim: Explore other financial assets and markets.

Unit Relevance to the Course: This unit will refer back to some of the macroeconomic concepts explored in unit 2. Connections will also be made in chapters 9 and 11 to the market instruments reviewed in this unit.

Learning Hours:

Scheduled – 0

Guided – 4

Independent – 2



Unit 5 Learning Outcomes

Learning Objective	Learning Outcomes	Chapter Section
5.1.1	Know the characteristics of fixed-term and instant access deposit accounts	2
5.1.2	Know the advantages and disadvantages of investing in cash	2
5.1.3	Know the difference between crypto currencies and fiat currencies	2
5.2.1	Know the difference between a capital market instrument and a money market instrument	3
5.2.2	Know the definition and features of the following: <ul style="list-style-type: none"> • Treasury Bill • Commercial Paper • Certificate of Deposit • Money market funds 	3
5.2.3	Know the advantages and disadvantages of investing in money market instruments	3
5.3.1	Know the characteristics of property investment: <ul style="list-style-type: none"> • Commercial / residential property • Direct / indirect investment 	4
5.3.2	Know the potential advantages and disadvantages of investing in property	4
5.4.1	Know the basic structure of the foreign exchange market including: <ul style="list-style-type: none"> • Currency quotes • Settlement • Spot / forward • Short term currency swaps 	5
5.4.2	Be able to calculate a forward exchange rate using interest rate parity formula	5

How to use this delivery guide

Throughout this delivery guide, look out for the different icons to support the learner experience:

Understand and learn – These **compulsory** sections will help learners to develop their knowledge and understanding of the assessed learning objectives. We have also integrated the CISI micromodules into this learning. These give learners key explanations of the themes in a short, digestible manner and can be found on the CISI learning platform.



Apply and practise – These sections allow the learners to practise and test their newly acquired learning by undertaking a range of **compulsory** activities to help them prepare for the multiple choice assessment at the end of the course.



Further your knowledge – These sections allow learners to consolidate their understanding of key concepts by reading and interacting with current, credible CISI resources to help further enhance their learning. These **optional** resources include the CISI professional refresher modules and CISI YouTube videos.



Extension Activities – Whilst these activities do not form part of the core learning, we have added lots of extension activities to enhance the learners understanding. These activities include videos and webinars from the CISI TV channel. These activities also provide help and support if learners feel that they might need an extra bit of guidance after completing the end of unit multiple choice assessments.



Introduction

Imagine you had £1,000 for the purpose of saving. Research the different types of savings account that you could use and the different interest rates you could achieve if you left the money in the account for 12 months and do not withdraw it.





Learning Outcome 5.1 – Cash Deposits

5.1.1: Know the characteristics of fixed-term and instant access deposit accounts

5.1.2: Know the advantages and disadvantages of investing in cash

5.1.3: Know the difference between crypto currencies and fiat currencies



Cash deposits

Read the section on cash deposits in chapter 5 of the course workbook and answer the following questions.

1. Which institutions offer cash deposit accounts?
2. What are the main characteristics of cash deposits?
3. What type of cash deposit accounts are available?
4. What factors will influence the interest rate paid on deposits?



Cash deposits Continued...

Read the section on cash deposits in chapter 5 of the course workbook and answer the following questions.

5. Is interest paid gross or net of tax?
6. Who is the regulator for deposit takers?
7. The Financial Services Compensation Scheme (FSCS) provides protection up to what limit of deposit per person with an authorised institution?



The advantages and disadvantages of investing in cash

Advantages	Disadvantages



Anya's savings

Anya has invested her recent inheritance of £100,000 into a deposit account with ABC Building Society. She wants to use the interest earned to supplement her income as she is planning to retire in 3 years time.

She describes herself as a very cautious investor and has asked you to explain the risks she is taking with this investment.





Cryptocurrencies

Log into the professional refresher section of the CISI learning platform and complete the [cryptocurrencies](#) (6 mins) micromodule to gain an understanding of what cryptocurrencies are and how they are created and used.





Cryptocurrencies

Fill in the remaining blanks using these terms; blockchain, digital, authority, virtual, money, bank, asset, stored, record, legally, network, electronically.

Cryptocurrencies are a type of digital currency or _____ that can be traded, _____, and transferred _____.

- There is no single definition of cryptocurrencies, but one from the European regulatory authorities is that they are:
- A _____ currency that is represented by a digital _____ not issued by a central _____ or similar institution
- Not a _____ established currency
- In some circumstances, can be used as an alternative to _____.
- The best known cryptocurrency is Bitcoin, which uses _____, technology to build a decentralised _____ that has no central trusted _____ and is open to anyone to participate.



Crypto vs Fiat Currency

Refer to the table in chapter 5 of the course workbook and summarise the key differences between Crypto and Fiat Currency.

Cryptocurrency	Fiat Currency



Further your knowledge – Cryptocurrencies (Optional)

Log into the professional refresher section of the CISI learning platform and complete the [cryptocurrencies](#) (2hr) module. This module explores the different types of cryptocurrencies, how and if they can be adequately regulated, the way they are traded and what role they might play in the future.





Learning Outcome 5.2 – The Money Markets

5.2.1: Know the difference between a capital market instrument and a money market instrument

5.2.2: Know the definition and features of the following:

- Treasury Bill
- Commercial Paper
- Certificate of Deposit
- Money market funds

5.2.3: Know the advantages and disadvantages of investing in money market instruments



What are Money Markets?

To understand the difference between capital and [money markets](#), watch the CISI YouTube video about money markets and answer the following questions.

1. What is the key difference between capital and money markets?
2. Explain the 3 main types of money market instruments?



The main types of money market instruments

Using section 3 in chapter 5 of the course workbook, summarise the key features of treasury bills, certificates of deposit (CDs) and commercial paper (CP)

Treasury Bills	Certificates of Deposit (CDs)	Commercial Paper (CP)



Money market instruments

Using chapter 5 of the course workbook, answer the following questions.

1. How often are treasury bills issued?
2. What is a money market fund with a constant or fluctuating NAV known as?
3. Who issues treasury bills?
4. How do investors make a return on Commercial Papers?



Money market instruments Continued...

Using chapter 5 of the course workbook, answer the following questions.

5. Why are CDs and equities similar?
6. What are the advantages of investing in money market instruments?
7. What are the disadvantages of investing in money market instruments?
8. How do investors make a return on Certificates of Deposit?



Money market instruments Continued...

Using chapter 5 of the course workbook, answer the following questions.

9. How long can Certificates of Deposit be held for?

10. Are treasury bills interest bearing?





The key features of money market funds

Summarise the key features of money market funds under the following headings. Use section 3, chapter 5 of the course workbook.

Money Market Funds			
Regulation	Risk	Returns	Sectors (as introduced by the IA)



Further your knowledge – UK Money Markets Code

Log into the professional refresher section of the CISI learning platform and complete the [UK Money Markets Code](#) (1hr) module. This module sets out the standards and best practice expected in the deposit, repo and securities lending markets in the UK. It also outlines the contents of the Code and who it applies to.





Extension Activity – What are market makers?

To extend your knowledge of markets, watch this tutorial about [market makers](#).

1. What is the role of a market maker?
2. Give 3 examples of market makers.



Extension Activity – money market instruments

If you want to understand more about the 3 key money market instruments, undertake some research around the following:

- [Treasury Bills](#) on the Debt Management Office website
- [Certificates of deposit](#) on the Bank of England website
- [Commercial Paper](#) on Investopedia

*CISI is not responsible for the accuracy, legality or content of any external sources referenced in this workbook





Learning Outcome 5.3 – Property

5.3.1: Know the characteristics of property investment:

- Commercial / residential property
- Direct / indirect investment

5.3.2: Know the potential advantages and disadvantages of investing in property



The characteristics of property investment – True or False?

Read section 4 in chapter 5 about property and decide if the following statements are true or false.

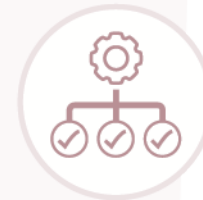
	True	False
1. The property market is highly liquid		
2. The valuation of property is subjective		
3. The supply of land is infinite		
4. The property market is impacted by legislation and planning regulations		
5. The price of property is determined by changes in demand		



Residential vs Commercial Property

Outline the key differences between commercial and residential property.

	Residential Property	Commercial Property
Direct Investment		
Tenancies		
Repairs		
Returns		



Residential vs Commercial Property

Look at the different types of property listed below and determine whether they are either residential or commercial.

	Residential	Commercial
Retail units		
House of multiple occupancy		
Buy to let rental		
Industrial units		
Holiday home		
Agricultural land		
Second homes		
Office developments		



Investing in property scenario

Anton is considering investing in a buy to let property and has come to you for advice on the main economic risks he should consider before doing so. What are the economic factors that Anton needs to consider?





Advantages and disadvantages of investing in property

API Global specialise in UK property investments. Read their blog about whether [property investment is worth it for building wealth](#) and bullet point the key pros and cons of property investment in the UK.

Advantages	Disadvantages



Learning Outcome 5.4 – The Foreign Exchange Market

5.4.1: Know the basic structure of the foreign exchange market including:

- Currency quotes
- Settlement
- Spot / forward
- Short term currency swaps

5.4.2: Be able to calculate a forward exchange rate using interest rate parity formula



Background to the foreign exchange market

In the past, currencies were backed by gold as money had intrinsic value. This 'gold standard' was replaced after the second world war by the [Bretton Woods Agreement](#), which itself was abandoned in the 1970s. Now, currencies are able to float freely against one another, leading to the development of new financial instruments and speculation in the currency market.

Currencies are abbreviated to a three digit reference. Which currencies do these refer to? Do you know any others?

1. USD
2. GBP
3. CHF
4. JPY
5. EUR
6. HRK
7. ZAR
8. SGD



Currency Quotes

Read the section in the course workbook about foreign exchange and answer the following questions.

1. What are the two main features of currency trading?
2. Where is the world's largest foreign exchange (FX) market?
3. Which are the most commonly quotes currency pairs?
4. When currencies are quoted, which is the base and which is the counter or quote currency?



Currency Quotes

5. What is the base currency always equal to?
6. Is the FX market exchange traded or OTC?
7. Who are the main participants in the FX market?
8. What does it mean when the exchange rate is 'going up'?
9. What does a GBP/USD currency quote of 1.1164/66 mean?



FX transactions

Read the section about FX transaction in the course workbook and complete the table below.

	Definitions and features
Spot transaction	
Forward transaction	
Future	
Swap	



Settlement of FX transactions

Settlement of FX transactions are made through CLS Bank or the worldwide international banking system.
Answer the following questions about CLS Bank:

1. What type of bank is it?
2. When was it created?
3. Who is it owned by?
4. What is it used for?



Settlement of FX transactions Continued...

5. What system does it use?

6. Does it allow settlement directly between participants accounts?





Forward Exchange Rates

A forward exchange **contract** is an agreement between two parties to either buy or sell foreign currency at a fixed exchange rate for settlement at a future date.

The forward exchange **rate** is the exchange rate set today even though the transaction will not settle until some agreed point in the future eg. in 3 months time.

The relationship between the spot exchange rate and forward exchange rate for 2 currencies is given by the differential between their respective nominal interest rates over the term being considered (it is a purely mathematical relationship and has nothing to do with market expectations).

The interest rate parity **formula** is as follows:

$$\text{Forward rate} = \text{spot rate} \times \left(\frac{1 + \text{quote currency short term rate}}{1 + \text{base currency short term rate}} \right)$$



Calculating a 3 month forward rate for GBP/USD

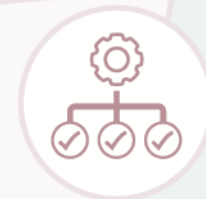
The GBP/USD spot rate is 1.25
Three month LIBOR rates are 0.50% in the UK and 1% in the US (quoted on an annual basis)

$$1.25 \times \left(\frac{1 + 0.0025}{1 + 0.00125} \right) = 1.2516$$

Step 1:
The annual interest rates need adjusting to quarterly rates:
UK rates: $0.50\% \div 4 = 0.125\%$
US rates: $1.00\% \div 4 = 0.25\%$

Step 2:
Calculate the forward rate using the formula given

NB: In this example interest rates are higher in the UK so the forward rate is higher than the spot rate



Calculate the Forward Exchange rate for the following example:

One year contract:
The EUR/USD spot rate is 1.20
The EUR interest rate is 0.5%
The USD interest rate is 1%

Answer =



Further your knowledge – Foreign Exchange

Log into the professional refresher section of the CISI learning platform and complete the [Foreign Exchange](#) (2hrs 15mins) module. This module provides an overview of the foreign exchange markets and introduces some of the most important trading techniques as well as how businesses use foreign exchange to manage risk.





Movie Time – 2008 Financial Crisis

Read the Bank of England's summary about the [2007/8 financial crisis](#) and watch some of our movie / documentary recommendations to understand the global impact of the 2008 financial crisis.

Movies

Margin Call - Follows the key people at an investment bank over a 24-hour period during the early stages of the 2008 financial crisis.

Inside Job - Takes a closer look at what brought about the 2008 financial meltdown. This documentary explains how the insatiable greed (of US corporations and government) made things possible. Academics were paid hundreds of thousands to write deceptive papers of praise. US rating agencies were paid by banks to falsely grade subprime mortgage-backed securities as AAA (rather than risky and toxic). It also explains the mind boggling CDO scam and how it back fired on AIG which then needed bailing out using taxpayers money (~ \$150bn).

Too Big Too Fail - HBO docu-drama which recounts the Sep 2008 financial collapse but more on the stressful moments that went on behind the scenes.

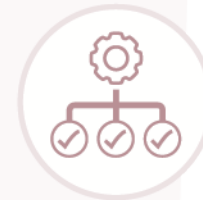
Documentaries

- [The Bank That Almost Broke Britain | BBC Documentary 2018 HD - YouTube](#)
- [Freefall \(Part One\) - YouTube](#) (Irish Financial Crash 2008)
- [Freefall part two - YouTube](#)
- [Richard Fuld - Lehman Brothers Bankruptcy Testimony \(Enhanced Audio\) - YouTube](#)
- [Warren Buffett - HBO Documentary HD - YouTube](#)
- [The real truth about the 2008 financial crisis | Brian S. Wesbury | TEDxCountyLineRoad - YouTube](#)
- [The shocking reality of how close Britain came to financial meltdown - BBC - YouTube](#)



End of Unit 5

Multiple Choice Assessment



Test your knowledge

1. The Financial Services Compensation Scheme (FSCS) protects cash invested with authorised deposit takers up to:
 - A. £850,000
 - B. £85000
 - C. 100,000
 - D. 1,000,000
2. Which one of the following is classified as a long term debt instrument?
 - A. Certificates of Deposit
 - B. Zero Coupon Bonds
 - C. Treasury Bills
 - D. Commercial Paper



Test your knowledge

3. According to the FCA, which of the following is NOT a type of cryptoasset
 - A. Exchange tokens
 - B. Security tokens
 - C. Currency tokens
 - D. Utility tokens
4. Which ONE of the following foreign currency transactions would be settled two business days after the deal was agreed?
 - A. Forward
 - B. Option
 - C. Future
 - D. Spot



Test your knowledge

5. Which ONE of the following is a short term security issued by commercial banks in exchange for fixed term deposits?
- A. Certificates of Deposit
 - B. Commercial Paper
 - C. Listed Futures Contract
 - D. Treasury Bills
6. Which one of the following is NOT a feature of deposit-based investment?
- A. Inflation may reduce the real value of the deposited capital over time
 - B. Return simply comprises interest income with no potential for capital growth
 - C. The FSCS protects cash deposited with authorised deposit takers
 - D. Interest is paid to deposit holders net of tax



Test your knowledge

7. Which of the following is NOT an advantage of investing in money market instruments?
- A. The nominal is preserved
 - B. It is a professional market
 - C. They are a good investment in times of uncertainty
 - D. Quick returns can be gained
8. Which ONE of the following is a feature of treasury bills?
- A. They finance long term government borrowing
 - B. They are priced at a discount to par value
 - C. They pay quarterly interest
 - D. They are issued on a quarterly basis



Test your knowledge

9. Which of the following is NOT an advantage to investing in cash?
- A. Liquidity
 - B. No exposure to market volatility
 - C. Capital is always protected from the risk of defaulting deposit-taking institutions
 - D. Savings vehicle

10. Which body regulates banks and other deposit takers in the UK?
- A. Financial Conduct Authority
 - B. Prudential Regulatory Authority
 - C. Debt Management Office
 - D. Financial Services Compensation Scheme



Test your knowledge

11. A currency quotation for USD/CHF is said to be 'going up'. Which ONE of the following is true?
- A. The base currency is the US dollar and it is weakening relative to the Swiss franc
 - B. The base currency is the Swiss franc and it is weakening relative to the US dollar
 - C. The base currency is the US dollar and it is strengthening relative to the Swiss franc
 - D. The base currency is the Swiss franc and it is strengthening relative to the US dollar



Test your knowledge

12. What is the settlement date for a FX forward transaction?

- A. Date is agreed between the two parties
- B. Predefined transaction date
- C. Two business days after the transaction date
- D. Three months after the transaction date

13. Which of the following describes a money market fund which has either a constant or fluctuating NAV?

- A. Money Market Funds
- B. Short term Money Market Funds
- C. Commercial Paper
- D. Certificates of Deposit



Test your knowledge

14. Which of the following statement is true regarding cryptocurrency:

- A. Transactions are often faster than transactions of fiat currency
- B. Prices are generally considered more stable than fiat currency
- C. Transactions are always anonymous
- D. Value is backed by physical commodities

15. The first currency quoted in a pair is known as:

- A. The base currency
- B. The counter currency
- C. The quote currency
- D. The second currency



Test your knowledge

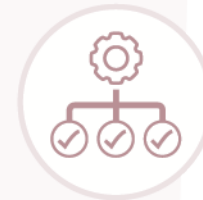
16. A trader quotes 1.2544/48 for a GBP/USD foreign exchange transaction. This means:

- A. If the client wants to buy £100,000, they will need to deliver \$125,444
- B. If the client wants to buy £100,000 they will need to pay \$1.2544 for every GBP
- C. If the client wants to buy £100,000 they will need to deliver \$125,480
- D. If the client wants to sell £100,000, they will receive \$125,480



Test your knowledge

17. Which of the following is NOT a feature of property as an asset class:
- A. It is subject to complex legal consideration
 - B. Diversification is difficult
 - C. Price is primarily determined by changes in supply
 - D. It is considered relatively illiquid
18. Which of the following is NOT true of direct investment in property
- A. It has historically provided positive, real and long term returns
 - B. It has historically provided a reliable source of income with low volatility
 - C. Many private investors have chosen to become involved in the market through commercial property
 - D. It is a relatively illiquid form of investment



Test your knowledge

19. Which ONE of the following is a typical feature of a treasury bill?
- A. Term to maturity of between 1-2 years
 - B. Purchase price is less than the nominal value
 - C. par value is less than the redeemable sum
 - D. Rate of interest between 2% and 3% per annum
20. Commercial Papers are issued by:
- A. Banks
 - B. Governments
 - C. Large Companies
 - D. REITs



Monitoring my progress – Unit 5

My multiple choice assessment mark is ___ / 20

I am happy with the progress that I made on the multiple choice assessment
___ Yes ___ No

To improve my knowledge and understanding, I now need to...

- 1.
- 2.
- 3.

Need more help?

If you feel that your multiple choice score can be improved further, complete the end of unit 5 multiple choice questions in the course workbook.

