



**BUSINESS STUDIES**  
**GRADE 12**  
**TERM 2**  
**CHAPTER 6**  
**NOTES ON INVESTMENT: SECURITIES**  
**REVISED**  
**2020**

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**This chapter consists of 16 pages**

**CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES****Learners must be able to:**

- Outline/Explain/Discuss the functions of the JSE.
- Investigate a range of available business investment opportunities.
- Outline/Mention/Describe/Explain/Discuss the following factors that should be considered when making investment decisions:
  - Return of investment (ROI)
  - Risk
  - Investment term/period
  - Inflation rate
  - Taxation
  - Liquidity
  - Personal budget
  - Investment planning factors
  - Volatility/Fluctuations on investment markets
- Explain/Discuss the various types of investments opportunities e.g. fixed property, stokvels, managed portfolio, venture capital etc.
- Explain the risk factor of each type of investment opportunity.
- Explain/Discuss/Analyse/Evaluate (positives/advantages and/or negatives /disadvantages) of the following forms of investment:
  - Government/RSA retail savings bonds
  - Unit trusts
  - Shares
  - Fixed deposit
  - Identify the following types of shares from given scenarios/statement:
    - Ordinary shares
    - Preference shares
    - Bonus shares
    - Founders shares
- Name/Outline/Explain/Discuss types of preference shares.
- Outline/Mention the rights of ordinary and preference shareholders.
- Identify types of preference shares from given scenarios/statements.
- Differentiate/Distinguish between ordinary and preference shares.
- Define/Explain the meaning of debentures, dividends, capital gain, simple interest, compound interest.
- Differentiate/Distinguish between simple interest and compound interest.
- Calculate simple and compound interest from given scenarios.
- Recommend the best investment option based on the calculations.

## Terms and definitions

Term	Definition
Investment	Investing/Saving money in order to yield better returns.
JSE/Johannesburg Security Exchange	Is a formal market, trading in shares, comprising of all the public companies that have been listed.
Share	It gives investors the opportunity to obtain a part ownership of a company.
Capital Market / securities market	It is the market for securities/shares where companies and the government can raise long-term funds.
Short term investment	An investment for a period shorter than one year.
Long term investment	An investment for a period for longer than one year.
Fixed rate	The rate of return stays the same for the period of time.
Accumulated	Interest earned over the investment period.
Simple interest	Calculated on the original/principal amount invested.
Compound interest	Calculated each period on the original/principal amount including all interest accumulated during past periods.
Risk	Refers to the chance that the invested amount may reduce in value/lost in total over a period of time, due to unforeseen circumstances.

### 1 Functions of the JSE

- Gives opportunities to financial institutions such as insurance companies to invest their funds in shares.
- Serves as a barometer/indicator of economic conditions in South Africa.
- Keeps investors informed on share prices by publishing the share prices daily.
- Acts as a link between investors and public companies.
- Shares are valued and assessed by experts.
- Small investors are invited to take part in the economy of the country through the buying/selling of shares.
- Venture capital market is made available on the open market.
- Orderly market for securities serves as a disciplined market for securities.
- Encourages new investments.
- Mobilises the funds of insurance companies and other institutions.
- Raises primary capital.
- Regulates the market for dealing with shares.
- Plans, researches and advises on investment possibilities.
- Ensures that the market operates in a transparent manner.
- Provides protection for investors.
- Encourages short-term investment.
- Facilitates electronic trading of shares/STRATE.

## 2 Factors that should be considered when making investment decisions

- Return of investment (ROI)
- Risk
- Investment term/period
- Inflation rate
- Taxation
- Liquidity
- Personal budget
- Investment planning factors
- Volatility/Fluctuations on investment markets

### 2.1 Explanation of investment decisions

#### Return on investment

- Refers to income from the investment, namely interest/dividends/increased capital growth on the original amount invested.
- High risk investments yield higher returns.
- Generally, there will be a direct link between risk and return.
- The return should be expressed as net after-tax gains on the investment.
- Returns can be in the form of capital gains where the asset appreciates in value over time.

#### Risk

- Shares have low/medium risk over a longer investment period.
- Shares with higher risks have a greater potential for higher returns.
- Ordinary shares have the highest risk as the investor may lose the full/part of the investment when the company is dissolved/bankrupt/liquidated.
- Preference shareholders' risk is lower, as they have preferential claims on the assets of the liquidated company/may receive some compensation before ordinary shareholders.
- Share prices are linked to factors that investors cannot control, e.g. economic conditions/operational success of the company, etc.
- Share prices are volatile/unstable/unpredictable/may increase/ decrease sharply within hours which contribute to the uncertainty of the value of an investment in shares on the short term.

#### Investment period

- This refers to the duration of the investment which may influence the return on investment.
- The longer the investment period the higher the returns.
- The investment period will depend on an investor's personal needs.
- Short term investments enable investors to access their money on a short period if needed.
- The investment period can be short, medium and/or long term depending on the investors' needs.

**Inflation rate**

- People are affected by a high inflation rate, because their money/purchasing power decreases.
- The return on investment should be higher than the inflation rate.
- Inflation has a positive effect on some investments such as property/shares where the income will increase as inflation increases.

**Personal budgets**

- Investors can determine the amount of surplus money that can be invested.
- Investors must budget for unforeseen costs.
- Budget should provide for contingency plans/investments/savings.

**Liquidity**

- An amount could be invested in a type of investment that can easily be converted to cash.
- It is used to describe the ease and speed with which investors can convert an investment into cash.
- Example: an investment in a savings account/unit trust will be easier to convert into cash than an investment in a fixed deposit which is usually deposited for a fixed period of time.

**Taxation**

- A good investment will yield good after-tax returns.
- Income tax implications must be considered in order to ensure a high net after-tax return.
- Tax rates are not necessarily the same for different investments.

**Investment planning factors**

- Investors should always consider the safest possible investment opportunities.
- Some investments offer a low income on invested capital, but it could be a safer investment than one that promises a higher income.
- Examine opportunities with a history of good return.
- Divide investments between various investment options.
- The method of calculating the interest/return on investment should be considered.

**Volatility/Fluctuations on investment markets**

- Fluctuation in national and international economic trends should be considered.
- The level of volatility will determine the amount of returns.

**3 Types of investments opportunities and risk factors****Fixed Property**

- Buying a house/piece of land is usually suitable as a long term investment only.
- Large fees/taxes are payable on these transactions, so property cannot be bought/sold every year.
- Return on property is earned in the form of rental/sales/capital gains at a higher price than what it was bought for (including the transfer costs and taxes).
- The location/size of the property may also influence the growth in value over time.

**Risk**

- Low risk over a long term.
- Risk may be determined by economic conditions and may influence the value of property.

**Mutual funds/Stokvels**

- It is an informal savings scheme to which a relatively small group of people contribute.
- Each member takes a turn to draw from the scheme/fund/stokvels for their own personal gain.
- No/Small return on investment, as contributions are distributed monthly to one of the members.
- It encourages people to save each month for a specific reason.
- Banking fees are shared by the members, resulting in low cost of investment per member.
- In times when it is hard to get bank loans, stokvel pay-outs may come in handy.
- A stokvel is usually managed by a trustworthy chairman/treasurer, who will be responsible for keeping records and managing the bank account.
- Members usually discuss how the money will be invested and agree on the risks they are willing to take.

**Risk**

- Schemers who claim to be running stokvels may actually be running illegal pyramid schemes and pay-outs may not be possible as cash has run out/members may lose their savings.
- Money in a savings account is a safe investment, but with low interest rates/the returns are low.

**Managed portfolio**

- An investor instructs a financial institution/bank/financial advisor to manage his/her various investments/assets in one portfolio.
- If the portfolio does not perform well/as expected, the portfolio/parts thereof may be changed with/without informing the investor.

**Risk**

- Risk is lower over a longer term/period.
- Investments are made in various sectors/companies, therefore the risk is spread and better managed by the portfolio manager.
- Money is usually invested in the capital market and unforeseen circumstances may impact negatively on the value of the portfolio on the short term/High risk over the short term.

**Fixed deposit**

- It is a very conservative method of investment at a fixed rate for a fixed period/at a financial institution/bank.
- Money cannot be withdrawn/added during the period of the deposit.
- Investors have to be certain that they will not access/need the money for the period of the deposit.

**Risk**

- Very low as the investor will receive what was promised.
- As the interest rate is usually fixed, the return will not be affected by market fluctuations.

**32-day notice accounts/Call Deposits**

- Money is invested at a fixed rate, although withdrawals may be made provided the bank is given 32 days' notice of the withdrawal.
- It earns more interest than a current/cheque/savings account, but less interest than a fixed deposit.

**Risk**

- Low risk, as investment plus interest will be paid out on the maturity date of investment.
- Interest is calculated on the daily balance, accelerating the value/return on the investment/lowering the risk.
- Interest rate may fluctuate with market conditions, increasing the risk.

**Debentures**

- It is issued to raise borrowed capital from the public.
- The lender/debenture holder agrees to lend money to the company on certain conditions for a certain period.
- Debenture holders are creditors, as the company is liable to repay the amount of the debentures.
- Most types of debentures can be traded on the JSE.
- Debenture holders receive annual interest payments based on the terms/ amount of debentures held.

**Risk**

- Debentures have a low risk as they need to be paid back.
- Companies are liable to repay the amount of the debenture plus interest, which decrease the risk for the investor.
- Investors may earn a steady income in the form of interest while preserving their principal amount.

**Business Ventures/Venture capital**

- Venture capital is given by an investor/businesses to start up/expand a business in return to have a share in the new/expanded business.
- Investor(s) should know the type of business/market/economic conditions before a business is bought/started.
- Buying a franchise/existing businesses will be successful, if the investors has done proper research/understand exactly what he/she is investing in.

**Risk**

- High risk for the investor(s), if research is not properly done.
- Inexperienced business owners that make wrong business decisions may experience big losses/closing down of an existing business.

**Endowment/Life insurance policies/Retirement Annuities**

- A monthly payment is paid to an insurance company with the expectancy of receiving a pre-determined amount on a date in the future.
- To provide for a future expenses/give peace of mind to the dependants of the insured.

**Risk**

- Low risk, as the insured amount will be paid out regardless of circumstances.
- Only the closing down/bankruptcy of the insurance company may result in losing the monthly contributions made up to the close down date.

**Unit trusts**

- It is a collection of investment options/methods made up of shares in different companies.
- The investments of a number of investors are pooled together in a unit trust fund, managed by a fund/portfolio manager/expert.
- Can be bought directly from the accredited service providers.

**Risk**

- Investment may be made in high and low risk shares, which spread the risk throughout the fund and lowers the risk for all the investors/fund members.
- Fund managers are able to manage the risk level of the fund on behalf of the investors.

**Shares**

- Companies sell/issue portions of its ownership to shareholders in the form of shares on the open market to obtain capital/funds to operate its core business.
- Shares give the holder one vote per share and the right to receive a dividend (portion of the profit).
- Companies do not have to repay share capital and is therefore risk avoiding capital.
- Shares of listed companies are traded on the JSE.
- Shares can be bought/sold through stock/share brokers to whom a brokerage/fee will be paid by the investor.
- Types of shares differ with respect to the claims to profits/dividends/voting rights/claims to assets should the company be liquidated.
- Ordinary shares can be divided into different types, e.g. blue chip/bonus/growth/income/defensive shares.
- Ordinary shares have no special rights or restrictions and may yield/earn higher dividends, but also have higher risk.
- Types of preference shares are cumulative/non-cumulative/participating/non-participating/redeemable/non-redeemable/convertible/non-convertible shares.
- Preference shareholders mostly receive a fixed dividend and are paid before other shareholders.

**Risk**

- Shares have low/medium risk over a long term/investment period.
- Ordinary shares have the highest risk as the investor may lose the full or part of the investment when the company is dissolved/bankrupt/liquidated.
- Preference shareholders' risk is lower, as they have preferential claims on the assets of the liquidated company/may receive some compensation before ordinary shareholders.
- Share prices are linked to factors that investors cannot control, e.g. economic conditions, operational success of the company, etc.
- Share prices are volatile/unstable/unpredictable/share values may increase/ decrease sharply within hours which contribute to the uncertainty of the value of an investment on the short term.

**RSA Retail Savings Bonds**

- To encourage saving, the SA Government offers SA citizens the opportunity to invest in saving bonds.
- Two different types of bonds are available, i.e. fixed rate/inflation linked retail savings bonds.

- A market related interest rate is determined when investment is made and remains fixed for the whole term of the investment.
- Interest is earned half-yearly on 31 March and 30 September and paid out into the bond holder's/investor's bank account.
- It cannot be used as security to obtain loans, so creditors cannot have any claim on it.
- It can be inherited by a nominated beneficiary/when the investor dies.

### **Risk**

- Risk is very low, as an investment is made in the government who cannot disappear/go bankrupt.
- It is a safe investment, as it cannot be sold on the open market/not exposed to market risks.

## **4 Forms of investments**

- Government/RSA retail savings bonds
- Unit trusts
- Shares
- Fixed deposit

### **4.1 Impact of FOUR forms of investments**

#### **4.1.1 Impact of RSA Retail Savings Bonds/Government Retail Bonds**

##### **Positives/ Advantages**

- Guaranteed returns, as interest rate is fixed for the whole investment period.
- Interest rates are market related and attract more investors.
- Interest can be received twice a year.
- Interest is usually higher than on fixed deposits.
- Retail bonds are listed on the capital bond markets/on the JSE.
- Low risk/Safe investment, as it is invested with the South African Government which cannot be liquidated
- No charges/costs/commissions payable on this type of investment.
- Investment may be easily accessible, as cash may be withdrawn after the first twelve months.
- It is an affordable type of investment for all levels of income earners including pensioners.
- Retail bonds are easily/conveniently obtained electronically/from any Post Office/directly from National Treasury.
- Investors younger than 18 years/Minors may invest with the help of a legal guardian, which encourages saving from a young age.

##### **AND/OR**

##### **Negatives/ Disadvantages**

- Retail bonds cannot be ceded to banks as security for obtaining loans.
- A minimum of R1 000 must be invested, which may be difficult for some small investors to accumulate.

- Retail bonds are not freely transferable amongst investors.
- Investors need to have valid SA identification/should be older than 18 years which may discourage foreigners/young people to invest.
- Penalties are charged for early withdrawals, if the savings is less than 12 months old.

### 4.1.2 Impact of unit trusts

#### **Positives/ Advantages**

- Managed by a fund manager who buys shares on the stock exchange/JSE.
- Easy to cash in when an investor needs money.
- A small amount can be invested per month.
- Generally beats inflation on the medium/long term.
- Safe investments, as it is managed according to rules and regulations.
- The investor has a variety to choose from/a wider range of shares from lower to higher degrees of risk.
- Easy to invest in, as investors simply complete a few relevant forms or invest online.
- Fluctuations in unit trust rates of return are often not so severe because of diversity of the investment fund.
- Offer competitive returns in the form of capital growth and dividend distribution.
- Fund managers are knowledgeable/experts/reliable/trustworthy as they are required to be accredited to sell unit trusts.

#### **AND/ OR**

#### **Negatives/ Disadvantages**

- Share price may fluctuate
- Unit Trusts are not allowed to borrow, therefore reducing potential returns.
- Not good for people who want to invest for a short period
- Not good for people who want to avoid risks at all costs.
- If blue chip companies do not continue on their growth path, the growth of unit trusts will also be affected and will not render the expected returns.
- Bid/Ask prices exist with the price that you can buy a unit for usually higher than the price you can sell it for - making investment less liquid.

### 4.1.3 Impact of shares/Ordinary shares

#### **Positives/ Advantages**

- Can be freely transferred/traded on the JSE.
- Shareholders' liability to the debt of the company is limited to what was invested/Shareholders have limited liability for company debts
- Shareholders have voting rights at the annual general meeting (AGM).
- Investing in shares provides protection against inflation.
- Investing in shares can provide solid returns at retirement age.
- Rate of return on investment (ROI) is linked to the performance of the company.
- Ordinary shares are usually cheaper than preference shares on the open market
- Holding a higher number of shares may result in higher proportional dividend pay-outs.

**AND/OR****Negatives/ Disadvantages**

- Shareholders may receive less dividends/no dividends when company profits are low.
- Companies have no legal obligation to pay dividends to shareholders.
- Risk may be high, as investment may be lost when companies are liquidated.
- Dividends declared may be determined by the management/directors of the company/business.

**4.1.4 Impact of fixed deposits****Positives/ Advantages**

- Interest is earned at a fixed rate regardless of changes in the economic climate.
- The period of investment can be over a short/medium/long term.
- Investors can choose the investment period that suits them.
- Principal amount plus interest earned is paid out on the maturity date.
- Ensures financial discipline as investors cannot withdraw their funds before the maturity date.
- Investors earn a better return on investment than on an ordinary savings account.
- The higher the principal amount/the longer the investment period, the higher the interest rate offered by a financial institution.

**AND/OR****Negatives/ Disadvantages**

- The investor cannot withdraw their funds before the maturity date.
- Low returns compared to other investments.
- May not outperform the effect of inflation over long term.

**4.2 TYPES OF SHARES****4.2.1 Ordinary shares**

- Ordinary shares only receive dividends when profit is made.
- Normally the higher the net profit, the higher the dividend.
- Shareholders are the last to be paid, if the company is declared bankrupt liquidated.
- Dividends vary from year to year according to profits made and are determined by the company/board of directors.
- Shareholders have a right to vote at the Annual General Meeting/AGM.

**Rights of ordinary shareholders****Shareholders have a right to:**

- vote at the Annual General Meeting.
- attend the Annual General Meeting to learn about the company's performance.
- receive interim and annual reports.
- claim on company assets in the event of bankruptcy after all other creditors and preferential shareholders have been paid

### 4.2.2 Preference shares

- Some of these types of shares receive dividends regardless of whether a profit is made.
- A fixed rate of return is paid on this type of shares.
- Shareholders have a preferred claim on company assets in the event of bankruptcy/liquidation.
- These shares enjoy preferential rights to dividends/repayment over ordinary shares.
- Dividends are payable according to the type of preference share.
- Voting rights are restricted to particular circumstances/resolutions.
- Non-cumulative preference shareholders will not receive any outstanding dividends from previous years.
- Cumulative preference shareholders will receive outstanding dividends from previous years.
- Redeemable preference shares can be redeemed/bought back at the option of the issuing company on a pre-determined future date.
- Non-redeemable preference shares are only bought back when the company closes down for reasons other than bankruptcy.
- Convertible preference shares are converted to ordinary shares after a fixed period/on the date specified when the preference shares were issued.
- Non-convertible preference shares will not be converted into ordinary shares.

### Rights of preference shareholders

#### Shareholders have right to:

- Receive dividends regardless of how much profits are made.
- Receive a fixed rate of return/dividend.
- They are paid first/enjoy preferential rights to dividends.
- They have a preferred claim on company assets in the event of bankruptcy/ liquidation of the company.
- Receive interim and annual reports.
- They only have voting rights at the AGM under particular circumstances/for certain resolutions.
- Cumulative shareholders must receive outstanding/accrued dividends from previous years.
- Participating preference shareholders have the right to share in surplus profits.

**NOTE: you must know the rights of ordinary and preference shares.**

### 4.2.3 Founders' shares

- Issued to the founders and incorporators/promoters of the company.
- They receive dividends after all other shareholders were paid.

### 4.2.4 Bonus shares

- Payment in the form of shares to shareholders.
- Issued as compensation for unpaid dividends.
- Shareholders will own more shares and collect more dividends in the future.
- Shareholders receive these shares without being required to pay for them.

**NOTE: You must be able to identify the above mentioned types of shares from given scenarios/statement.**

## 4.3 Types of preference shares

### Participating preference shares

#### Shareholders:

- are guaranteed minimum fixed dividends.
- are entitled to share in any surplus company profits.
- receive higher dividends when the company performs well.
- have preferential rights over ordinary shares on repayment when the company closes down.

### Non-participating preference shares/Ordinary preference shares

#### Shareholders:

- receive an amount equal to the initial investment plus accrued and unpaid dividends upon liquidation.
- do not have right to participate in profits after equity shareholders have been paid a dividend.
- will not get extra dividend in case of surplus profits.
- entitled to receive only a fixed rate of dividend every year.

### Cumulative preference shares

- Shareholders are compensated for past dividends that were not paid out when profits were too low to declare dividends/Receive dividends not previously paid out.

### Non-cumulative preference shares

- Shareholders are not compensated for past dividends that were not paid out when profits were low.

### Redeemable preference shares

- Shares can be redeemed/ bought back at the option of the issuing company, either at a fixed price on a specified date/over a certain period of time.

### Non-redeemable preference shares

- Shares are only bought back when the company closes down for reasons other than bankruptcy.

### Convertible preference shares

- Shares can be converted into a predetermined number of ordinary shares on the date specified when the preference shares were issued.

### Non-convertible preference shares

- Shares cannot be converted into ordinary shares.

**NOTE: You must be able to identify the above mentioned types of preference shares from given scenarios/statements.**

#### 4.4 Differences between ordinary and preference shares

ORDINARY SHARES	PREFERENCE SHARES
<ul style="list-style-type: none"> <li>• Ordinary shares only receive dividends when profit is made.</li> </ul>	<ul style="list-style-type: none"> <li>• Some of these types of shares receive dividends regardless of profit made.</li> </ul>
<ul style="list-style-type: none"> <li>• Normally the higher the profit, the higher the dividend.</li> </ul>	<ul style="list-style-type: none"> <li>• A fixed rate of return is paid on this type of shares</li> </ul>
<ul style="list-style-type: none"> <li>• Shareholders are the last to be paid, if the company is declared bankrupt/liquidated.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders have a preferred claim on company assets in the event of bankruptcy/liquidation.</li> </ul>
<ul style="list-style-type: none"> <li>• Ordinary shares are standard shares with no special rights or restriction.</li> </ul>	<ul style="list-style-type: none"> <li>• These shares enjoy preferential rights to dividends/repayment over ordinary shares.</li> </ul>
<ul style="list-style-type: none"> <li>• Dividends vary from year to year according to profits made as determined by the company.</li> </ul>	<ul style="list-style-type: none"> <li>• Dividends are payable according to the type of preference share.</li> <li>• Non-cumulative preference shareholders will not receive any outstanding dividends from previous years.</li> <li>• Cumulative shareholders will receive outstanding dividends from previous years.</li> </ul>
<ul style="list-style-type: none"> <li>• Shareholders have a right to vote at the Annual General Meeting.</li> </ul>	<ul style="list-style-type: none"> <li>• Voting rights are restricted to particular circumstances/resolutions.</li> </ul>

## 5 Investments concepts

- Debentures
- Dividends
- Capital gain
- Simple interest
- Compound interest.

### 5.1 Description of investment concepts

#### 5.1.1 Debentures

- It is issued to raise borrowed capital from the public.
- The lender/debenture holder agrees to lend money to the company on certain conditions for a certain period.
- Debenture holders are creditors, as the company is liable to repay the amount of the debentures.
- Most types of debentures can be traded on the JSE.
- Debenture holders receive annual interest payments based on the terms/ amount of debentures held.

#### 5.1.2 Dividends

- The return on an investment in shares which is paid regularly by a company to its shareholders.
- Dividends are decided and managed by the company's board of directors and approved by the shareholders through their voting rights.

### 5.1.3 Capital gain

- The return on property/fixed assets/investments.
- Capital gains tax is payable when you sell an asset that has increased in value since you bought it

### 5.1.4 Simple interest

- The interest is calculated on the original/principal amount invested.
- The principal amount remains the same over the entire period of investment.
- The interest is kept separate unless it is reinvested
- Yields less return on investment.

### 5.1.5 Compound interest

- Interest is calculated in every period on original/principal amount plus interest.
- Interest is added to the original/principal amount and interest is earned on interest for each defined period.
- As interest is added to the investment, the capital increases.

## 6 Distinction between compound and simple interest

COMPOUND INTEREST	SIMPLE INTEREST
Interest earned on original amount invested, as well as interest earned in previous period(s).	Interest earned on the original amount and not on the interest accrued.
The principal amount grows with the addition of interest to it.	The principal amount remains the same over the entire period of investment.
Interest is calculated on the higher principal amount and again added to it.	The interest is kept separate unless it is reinvested.
Yields high return on investment.	Yields less return on investment.
Total amount of interest earned on investment is high.	Total amount of interest earned on investment is less.

## 7 Examples of how to calculate the simple and compound interest

Ronnete wants to invest R30 000 in a fixed deposit for two years. She approached two banks. Saints Bank offered her 12% simple interest per annum and Caprica Bank 12% compounded interest per annum.

- Calculate the interest amount Ronnete will receive after two years if she invests with Saints Bank.
- Calculate the interest amount Ronnete will receive after two years if she invests with Caprica Bank.
- Recommend the best investment option for Ronnete. Motivate your answer.

### Calculation of simple interest of the above scenario

**FORMULA:** Interest =  $P \times R \times T$

$$R30\ 000 \times 12\% \times 2\ \text{years} = R7200$$

### Calculation of Compound interest of the above scenario

#### Option 1

$$\text{Year 1: } R30\ 000 \times 12\% = R3600$$

$$\text{Year 2: } R33\ 600 \times 12\% = R4032$$

$$\text{Total interest} = R7632$$

OR

#### Option 2

FORMULA:  $P \times (1 + r)^n$

$$R30\ 000 \times (1 + 12/100)^2$$

$$R30\ 000 \times (1.12)^2 = R37\ 632$$

$$\text{Total interest} = R37\ 632 - R30\ 000$$

$$= R7632$$

## 8 Recommendation on the best investment option based on the calculations

Compound interest is the best option based on the calculations above.

#### Motivation

Compound interest yields a higher interest of R7 632 than the simple interest/ Ronnete earns interest on interest accrued.