UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
OCTOBER 2024 SEMESTER

COURSE CODE	:	EGB20403
COURSE NAME	:	CAPITAL MARKET AND FINANCIAL INSTITUTIONS
PROGRAMME NAME	:	BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS
DATE	:	13 FEBRUARY 2025
TIME	:	9.00 AM – 12.00 PM
DURATION	:	3 HOURS

INSTRUCTIONS TO CANDIDATES

1. **Please CAREFULLY read the instructions given in the question paper.**
2. **This question paper has information printed on both sides of the paper.**
3. This question paper consists of **TWO (2) Sections; Section A and Section B**.
4. Answer **ALL** questions in **Section A** and choose **ANY TWO (2)** from **Section B**.
5. Please write your answers on the answer booklet provided.
6. All questions must be answered in **English** (any other language is not allowed).
7. **This question paper must not be removed from the examination hall.**

THERE ARE FOUR (4) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

SECTION A (Total: 40 marks)

INSTRUCTION: Answer ALL questions.
Please use the answer booklet provided.

Question 1

(a) Apart from Financial Institutions (FIs), the financial system also consists of the financial market. Explain two (2) functions of the financial market.

(4 marks)

(b) What are the importance of financial market? (4 marks)

(c) Financial market can be categorised into primary and secondary market. Explain three (3) differences between these two markets?

(6 marks)

(d) The maturity of the securities traded in financial market can be less than 1 year (short-term securities) or more than 1 year (long-term securities) . Give three (3) examples of the short-term securities and three (3) examples of the long-term securities.

(6 marks)

Question 2

(a) What is term structure of interest rates?

(2 marks)

(b) Explain three (3) factors affecting risk structure of interest rates. Provide suitable examples in your answer.

(18 marks)

SECTION B (Total: 60 marks)

INSTRUCTION: Answer TWO questions ONLY.
Please use the answer booklet provided.

Question 3

(a) Financial markets are divided into money market and capital market. List and explain three (3) differences between both markets

(9 marks)

(b) ABC Berhad is in need of additional funds for the running of their new project in Johor. As the finance manager of the company, you need to decide on the ways that the company can obtain these additional funds. Explain your suggestions to the board of directors.

(11 marks)

Question 4

(a) Changes in the equilibrium interest rates are due to the changes in the supply and the demand of bonds. Explain the factors that affect the shift in the demand of bonds. Please support your explanations with the demand curve graph.

(20 marks)

Question 5

(a) Compare and contrast between future and forward contracts in derivatives market.

(6 marks)

(b) You own 200 shares of Company ABC because you believe its price will rise. The current stock price is RM 40 per share, and your total investment is RM 8,000. However, you are concerned about a potential market downturn. You want to apply the hedging strategy. The premium cost is RM 1 for a share, and one contract will cover for 100 shares. What is the hedging tool that you should take? And explain

(c) what will happen if the share price drop to RM 30 per share? What will happen if the share price increases to RM 50 per share?

(14 marks)

END OF EXAMINATION PAPER