CONFIDENTIAL

UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
OCTOBER 2024 SEMESTER

COURSE CODE	:	**EGB10203**
COURSE NAME	:	**MONEY, BANKING AND FINANCIAL INSTITUTIONS**
PROGRAMME NAME	:	**BACHELOR OF BUSINESS ADMINISTRATION (HONS)**
DATE	:	**3 FEBRUARY 2025**
TIME	:	**2.00 PM – 5.00 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 **FOUR (4) Questions.**
4. Answer **ALL** questions.
5. Begin answering **EACH Question** on a **NEW PAGE** of the answer sheet.
6. Please write your answers on the answer booklet provided.
7. All questions must be answered in **English** (any other language is not allowed).
8. **This question paper must not be removed from the examination hall.**

THERE ARE THREE (3) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

SECTION A (Total: 100 marks)

INSTRUCTION: Answer **ALL** questions in this section in the answer booklet provided.

Question 1

(a) Describe the relationship between a bond's price (PCB) and its coupon rate (CR), current yield (CY) and yield to maturity (YTM).

(15 marks)

(b) Briefly explain the theory of term structure of interest rates.

(10 marks)

Question 2

(a) Briefly describe how an increase in expected inflation affects the supply and demand for bonds (use diagram if necessary).

(10 marks)

(b) Suppose an investor purchases a RM1,000 three-year, 5-percent coupon bond at par and hold it for one year. During that time, the interest rate falls to 4 percent. What is the investor's one-year holding period return. Calculate your annual holding period return.

(15 marks)

Question 3

(a) Briefly explain the expectation hypothesis of the term structure of the interest rates. Suppose that the interest rate on one-year bonds is currently 4 percent and is expected to be 5 percent in one year and 6 percent in two years. Compute the yields on two- and three-year bonds according to expectations hypothesis of the term structure of interest rates.

(15 marks)

(b) Risks can be reduced through diversification. Briefly explain ways where investors can use to diversify the risk of their investments.

(10 marks)

Question 4

(a) Define money and list the basic characteristics of money. Why the currency issued by a nation's monetary authority is called fiat money?

(10 marks)

(b) Suppose a two-year coupon bond has payments of RM40 and a face value of RM800. The interest rate is 8%. Compute the present value of the coupon payments and the principal payment of the bond. What is the price of this bond?

(15 marks)

END OF EXAMINATION PAPER