



**UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL**

**FINAL EXAMINATION
OCTOBER 2024 SEMESTER**

COURSE CODE	: EEB30203
COURSE NAME	: MONEY, BANKING AND CAPITAL MARKETS
PROGRAMME NAME	: BACHELOR OF BUSINESS ADMINISTRATION (HONS) IN ISLAMIC FINANCE
DATE	: 12 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. 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.**
8. You are allowed to use financial calculator.

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

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

- a) What is the relationship between financial market development and economic growth? Why so?
(4 marks)
- b) Can a financial instrument be bought and sold in both a primary and secondary financial market? Explain?
(4 marks)
- c) Why didn't the over-the-counter (OTC) exchanges suffer the disruption of service that the New York Stock Exchange did after the terrorist attacks of September 11, 2001?
(3 marks)
- d) What is the primary distinction between debt/equity markets and derivative markets?
(4 marks)
- e) Suppose that an internet-based program, Novus, wants to raise RM10 million to expand its business operations. Novus can raise these funds directly through each of the following options: issuing stock, issuing bonds, or obtaining a bank loan. Compare and contrast the differences between all these instruments in terms of payment.
(6 marks)
- f) Consider a typical individual who owns the following financial instruments: A life insurance policy for RM250,000; a certificate of deposit for RM10,000; homeowner's and auto insurance policies; RM50,000 in a mutual fund, and RM150,000 in her pension fund at work. Which of these are instruments used primarily as stores of value and which are being used to transfer risk?
(4 marks)

[Total: 25 marks]

Question 2

- a) It is not uncommon to read about highly successful mutual fund managers who spend considerable time visiting the companies where they have placed their clients' funds. What might be the motive(s) behind these visits? And which concept does it relate to?
(4 marks)
- b) Life insurance companies usually offer a lower premium to non-smokers than the premium charged to smokers. Discuss first (1) the potential for adverse selection and moral hazard and second (2) then ways the company can seek to reduce or eliminate these problems.
(5 marks)
- c) Explain what is deflation and why deflation can have a negative effect on the economy.
(5 marks)

- d) If buyers cannot distinguish a good used car, worth \$15,000, from a "lemon," worth \$5000; explain what will happen to the market for used cars. Why? (5 marks)
- e) What are at least four (4) of five (5) functions performed by financial intermediaries? Explain each of them (6 marks)

[Total: 25 marks]

Question 3

- a) What should be the impact on a bank's return on assets and return on equity from increased use of off-balance-sheet activities? (3 marks)
- b) Why are U.S. banks prohibited from owning stocks? (4 marks)
- c) A bank has \$100 million in assets and 50 percent of its assets are interest sensitive. The bank has \$75 million in liabilities, 50 percent of which are interest-sensitive. What is the bank's gap between interest-sensitive assets and liabilities? (4 marks)
- d) A bank has the following assets: Reserves of \$15 million; Loans of \$150 million; and Securities of \$50 million. Their liabilities include Deposits of \$150 million; Borrowed funds of \$35 million and Bank Capital of \$30 million. If the required reserve rate is 10 percent, answer the following: What is the amount of excess reserves the bank is currently holding? Provide at least 2 options available to the bank if customers decide to withdraw \$10 million in deposits. (6 marks)
- e) You are provided with the following information: a bank has a net income after taxes of \$3.5 million; it has assets of \$150 million; and bank capital of \$12.5 million. What is the bank's return on assets; its return on equity, and its debt-to-equity ratio? (4 marks)
- f) Why would a bank usually want to minimize the amount of excess reserves it has on hand? (4 marks)

[Total: 25 marks]

Question 4

- a) What are the five (5) specific objectives of most central bankers? (5 marks)
- b) Imagine you own a retail mail-order business. You produce your catalogue, where items and prices are listed, in January and you use the same catalogue all year. The central bank in your country increases the money supply by an amount to cause inflation to average one percent each month. Ignoring any seasonality in sales (like the holiday season), what should happen to your sales as the year progresses and why? (3 marks)

- c) If one of the specific goals that central bankers focus on is economic growth, should they aim for the highest short-term growth rate the economy can achieve? Explain.
(4 marks)
- d) Today there is a clear consensus about the best way to design a central bank. What are the (4) main criteria for a successful central bank?
(6 marks)
- e) The Federal Reserve didn't always communicate its actions to the public like it does today. As recently as the mid-1990s, secrecy ruled. Why do you think the Fed and most central banks now are more public about their actions and the reasons for them?
(4 marks)
- f) What may be the reasons that explain the observation that during periods of hyperinflation economic growth actually slows or even contracts?
(3 marks)

[Total: 25 marks]**END OF EXAMINATION PAPER**