UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2025 SEMESTER

COURSE CODE	:	EEB30203
COURSE NAME	:	MONEY, BANKING AND CAPITAL MARKET
PROGRAMME NAME	:	BACHELOR OF BUSINESS ADMINISTRATION (HONS) IN INTERNATIONAL BUSINESS
DATE	:	3 JULY 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 **FIVE (5) Questions**.
4. Answer **FOUR (4)** Questions **ONLY**.
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 SIX (6) PAGES OF QUESTIONS, INCLUDING THIS PAGE.

SECTION A (Total: 100 marks)

INSTRUCTION: Answer any four (4) questions.
Please use the answer booklet provided.

Question 1

a) What possibilities exist to explain the claim made by many professional hedge fund managers that they can beat the average stock market return, i.e. S&P 500 index, year after year?

(5 marks)

b) Why does the theory of efficient markets imply that stock price movements are unpredictable?

(5 marks)

c) XYZ Inc. announces plans to finance the firm's expansion by issuing hundreds of millions of dollars of bonds. Discuss how the current stockholders of XYZ Inc. will feel about this plan in terms of the risk and expected return.

(5 marks)

d) If you followed the discussion of the features of common stocks, you should be able to explain the following statement: One of the advantages of stock ownership is the limitless upside potential and limited downside. What exactly does this sentence mean?

(5 marks)

e) Explain at least three (3) reasons to explain the popularity of unit trusts or mutual funds.

(5 marks)

[Total: 25 marks]

Question 2

a) Please explain how Federal Deposit Insurance (FDIC) could potentially create a moral hazard for managing commercial banks.

(5 marks)

b) What three (3) out of five (5) functions do financial intermediaries perform?

(6 marks)

c) If buyers cannot distinguish a good used car, worth RM45,000, from a "lemon," worth RM25,000, explain what will happen to the market for used cars.

(5 marks)

d) Explain why deflation can be bad for the economy as a whole.

(4 marks)

e) Successful mutual fund or unit trust managers frequently visit companies where their clients' funds are invested. What could be the motivation(s) underlying these visits?

(5 marks)

[Total: 25 marks]

Question 3

a) How does increasing off-balance-sheet activity affect a bank's return on assets and equity?

(3 marks)

b) Why are commercial banks prohibited from owning stocks?

(4 marks)

c) A bank has RM100 million in assets, and 50 percent of its assets are interest-sensitive. The bank has RM75 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's assets include RM15 million in reserves, RM150 million in loans, and RM50 million in securities. Their liabilities include RM150 million in deposits, RM35 million in borrowed cash, and RM30 million in bank capital. If the required reserve rate is 10%, answer the following. What amount of excess reserves does the bank now hold? Provide at least two options for the bank if consumers choose to withdraw RM10 million in deposits.

(6 marks)

e) You are provided with the following information: a bank has a net income after taxes of RM3.5 million; it has assets of RM150 million; and bank capital of RM12.5 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 wish to minimise excess reserves?

(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 run a central bank. What are the three (3) main criteria for running 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 are now 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]

Question 5

a) What's the link between financial market development and economic growth? Explain.

(4 marks)

b) What are the three (3) of the four (4) factors that determine the value of a financial instrument?

(6 marks)

c) How significant is liquidity, information, and risk sharing in the financial market? Please explain each of them.

(6 marks)

d) How do weak property laws and legal structures affect a country's economic development?

(4 marks)

e) Suppose that Zoldan, an internet-based program, is seeking to raise RM10 million in order to expand its business operations. Zoldan has the option to directly raise these funds by issuing stock, issuing bonds, or obtaining a bank loan. Compare and contrast the payment characteristics of each of these instruments..

(5 marks)

[Total: 25 marks]

END OF EXAMINATION PAPER