



UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
OCTOBER 2025 SEMESTER

COURSE CODE : EGB30103
COURSE TITLE : FINANCIAL ECONOMICS 2
PROGRAMME NAME : BACHELOR OF SCIENCE (HONS) IN ANALYTICAL ECONOMICS
DATE : 25 JANUARY 2026
TIME : 2:00PM - 5:00PM
DURATION : 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on both sides of the paper.
3. This question paper consist of TWO sections.
4. Answer ALL questions for Section A.
5. Section B consist of four questions. Answer THREE (3) questions only.
6. Please write your answer on the answer booklet provided.
7. Please answer all questions in English only.
8. Please answer MCQ/EMQ questions using OMR sheet. *Tick if applicable*
9. Refer to the attached Formula/ Appendies. *Tick if applicable*

THERE ARE 4 PAGES OF QUESTIONS INCLUDING THIS PAGE

SECTION A (Total: 40 marks)

Answer ALL questions.

Please use the answer booklet provided.

Question 1

Answer the following questions.

- (a) Evaluate the importance of internal governance within financial institutions. (2 marks)
- (b) Explain how strong governance structures reduce agency problems, enhance risk management, and support market integrity. Draw on concepts from financial economics. (18 marks)

Question 2

Answer the following questions.

- (a) Explain the functions and structure of a financial system. (14 marks)
- (b) Discuss how an efficiently organised financial system promotes economic growth and resource allocation, drawing upon principles from financial economics. (6 marks)

SECTION B (Total: 60 marks)

Answer THREE (3) questions only.

Please use the answer booklet provided.

Question 1

Answer the following questions.

- (a) Discuss the major types of financial risk faced by investors and financial institutions.
(10 marks)
- (b) Evaluate how diversification, risk measurement tools, and capital market principles can be used to manage these risks effectively.
(10 marks)

Question 2

Answer the following questions.

- (a) Explain the mean–variance portfolio theory introduced by Markowitz and discuss how investors construct an efficient frontier.
(11 marks)
- (b) Evaluate the role of covariance, diversification, and the risk–return trade-off in determining optimal portfolios.
(9 marks)

Question 3

Answer the following questions.

- (a) Explain the theoretical foundations of the Capital Asset Pricing Model (CAPM).
(5 marks)
- (b) Discuss the Capital Asset Pricing Model's assumptions.
(5 marks)
- (c) Derive the expected return–beta relationship.
(5 marks)
- (d) Evaluate the economic intuition behind systematic risk and market equilibrium.
(5 marks)

Question 4

Answer the following questions.

- (a) Explain the major techniques used to evaluate project risk in capital budgeting.
(4 marks)
- (b) Discuss sensitivity analysis, scenario analysis, Monte Carlo simulation, and risk-adjusted discount rates, and evaluate their strengths and limitations from a financial economics perspective.
(16 marks)

END OF EXAMINATION PAPER