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UNIVERSITI KUALA LUMPUR
BUSINESS SCHOOL

FINAL EXAMINATION
MARCH 2026 SEMESTER

COURSE CODE	:	EGB20403
COURSE TITLE	:	CAPITAL MARKET AND FINANCIAL INSTITUTIONS
PROGRAMME NAME	:	BACHELOR OF SCIENCE (HONOURS) IN ANALYTICAL ECONOMICS
DATE	:	26 JUNE 2026
TIME	:	9:00AM - 12:00PM
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 ONE sections.
4. Section A consist of five questions. Answer FOUR (4) questions only.
5. Please write your answer on the answer booklet provided.
6. Please answer all questions in English only.
7. Refer to the attached Formula/ Appendies. ☐ *Tick if applicable*

THERE ARE 6 PAGES OF QUESTIONS INCLUDING THIS PAGE

SECTION A (Total: 100 marks)

Answer FOUR (4) questions.

Please use the answer booklet provided.

Question 1

Multinational firms and investors must manage their exposure to fluctuating exchange rates by deploying appropriate hedging derivatives, each with distinct structural characteristics.

(a) Identify and define the two primary exchange rate quotation conventions.

(4 marks)

(b) Define "Foreign Exchange Rate Risk" from the perspective of an investor and list the four main instruments used for hedging this risk.

(4 marks)

(c) Both FX Forwards and FX Futures are used to lock in a future exchange rate. Analyze the differences between these two derivatives by contrasting their contract customization, counterparty risk, and trading venues.

(8 marks)

(d) A U.S. firm has issued a 5-year debt denominated in Swiss Francs (CHF). Evaluate whether the firm should utilize a Currency Swap or a series of Currency Forward Contracts to hedge this long-dated exposure. Justify your evaluation based on liquidity, pricing, and structural characteristics.

(9 marks)

Question 2

The equity market has undergone significant transformations over the last 50 years, shaped by technological advancements, shifts in participant demographics, and evolving regulatory frameworks.

(a) Compare and contrast the characteristics of Common Stock and Preferred Stock, specifically highlighting their risk profiles and priority claims on dividends and corporate assets.

(6 marks)

(b) Explain the concept of the "institutionalization of the stock market" and discuss its primary implications for modern equity trading systems.

(6 marks)

(c) The Securities and Exchange Commission (SEC) protects investors through strict disclosure and market participant rules. Identify and briefly describe the functions of any two key divisions of the SEC.

(6 marks)

(d) Define the concepts of pre-trade and post-trade transparency. Furthermore, explain how the Consolidated Quote System (CQS) and the Consolidated Tape System (CTS) contribute to this transparency.

(7 marks)

Question 3

Linear payoff derivatives, such as futures, forwards, and swaps, act as essential risk transfer vehicles in financial markets.

(a) Compare and contrast a futures contract with a forward contract by focusing on standardization, the role of clearinghouses, settlement intent, and counterparty risk.

(8 marks)

(b) Explain the margin requirements involved in futures trading. In your answer, differentiate between the initial margin, maintenance margin, and variation margin.

(7 marks)

(c) Swaps are flexible agreements where counterparties exchange periodic payments. Define an interest rate swap and a currency swap, highlighting the key differences in how their payments are structured.

(10 marks)

Question 4

Bonds are foundational fixed-income securities. Accurately valuing these instruments and understanding their sensitivity to market fluctuations is critical for portfolio managers.

(a) Identify four fundamental variables required to calculate the theoretical price of a standard corporate bond.

(4 marks)

(b) Explain the inverse relationship between a bond's price and its Yield to Maturity (YTM).

(4 marks)

(c) A corporation issues a 10-year bond with a face value of $1,000 and a semi-annual coupon rate of 6%. If the current market yield to maturity (YTM) for similar risk bonds is 8%, calculate the current theoretical price of the bond. Show all formulas and workings.

(8 marks)

(d) A portfolio manager is choosing between a 20-year Zero-Coupon bond and a 20-year High-Coupon (10%) bond in a highly volatile interest rate environment. Evaluate the specific exposure each bond has to *Price Risk* and *Reinvestment Risk*. Conclude which bond is more appropriate for a pension fund attempting to perfectly match a single, known liability due exactly in 20 years.

(9 marks)

Question 5

The financial system acts as the lifeblood of an economy, seamlessly connecting those with excess funds to those requiring capital. The capital market, as a core component, facilitates long-term economic growth.

(a) Identify and briefly explain four main functions of a financial system.

(4 marks)

(b) Differentiate between the Primary Market and the Secondary Market. Provide one real-world example of an instrument or transaction for each market.

(8 marks)

(c) Compare and contrast Organized Exchanges with the Over-The-Counter (OTC) Market, specifically focusing on their structure and regulatory environment.

(7 marks)

(d) According to the core principles of money and banking, "Stability Improves Welfare." Discuss how instability within the financial system can negatively impact the broader economy.

(6 marks)

END OF EXAMINATION PAPER