



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

FINAL EXAMINATION
JANUARY 2016 SEMESTER

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SUBJECT CODE : EEB 30203
SUBJECT TITLE : MONEY, BANKING & CAPITAL MARKETS
LEVEL : BACHELOR
TIME / DURATION : 2.00 PM - 5.00 PM / 3 HOURS
DATE : 24th MAY 2016

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 consists of FIVE (5) questions. Answer only FOUR (4) questions.
4. Please write your answers on the answer booklet provided.
5. All questions must be answered in English (any other language is not allowed).
6. This question paper must not be removed from the examination hall.

THERE ARE FOUR (4) PAGES OF QUESTIONS, EXCLUDING THIS PAGE

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INSTRUCTION: Answer only FOUR (4) questions.

Please use the answer booklet provided.

Question 1

a) In the supply and demand framework for bonds, supply and demand curve shift due to the changes in the following variables

i. List and explain the four (4) main variables that cause the demand curve for bonds to shift? (Show the graphs and the direction of the shift)

(12 marks)

ii. List and explain the 3 main reasons that causes shift in the supply curve of the bonds? (Show the graphs and the direction of the shift)

(9 marks)

b) Please explain after or post effect of the interest rate due to the increase in the expectation of the interest rates, i.e. the Fisher Effect. (Please illustrate using the graph)

(4 marks)

Total: 25 Marks

Question 2

a) List the three (3) main observations or empirical facts on the Term Structure of Interest Rates

(6 marks)

- b) Explain the following Term Structure theories and which of the observations can be explained by each of this theory?

(Please provide illustrations or example to help clarify your explanation)

- i) Expectation theory

(6 marks)

- ii) Segmented Market Theory

(6 marks)

- iii) Liquidity Premium and Preferred Habitat theory

(7 marks)

Total: 25 Marks

Question 3

Two major episode of financial crisis occurred recently, i.e. in the Advance Economies and Emerging Economies. The Advance Economies financial crisis occurred in 2007-2009 while the Emerging Economies occur between 1994 and 1997.

- a) In the **Advance Economies**, the financial crisis occurs in two or three stages. Please identify significant event associate with each stage and provide the impact it has on the economy. (Please provide 2 significant events associated with each stage).

- i. Stage One

(4 marks)

- ii. Stage Two

(4 marks)

- iii. Stage Three

(3 marks)

- b) Please provide the at least TWO of the government measure to stamp the financial crisis and lead to the recovery?
(4 marks)

- c) In the **Emerging Economies**, the financial crisis occurs in two or three stages. Please identify significant event associate with each stage and provide the impact it has on the economy. (Please provide 2 significant events associated with each stage).

i. Stage One (4 marks)

ii. Stage Two (3 marks)

iii. Stage Three (3 marks)

Total: 25 Marks

Question 4

- a) There are four major tools used by the Federal Reserve or Central Banks to affect the Federal Fund Rate or Inter-banking Rate. Explain how each of the three major tools listed below would affect the rates. (Please provide graphs and explain base on the shift of the curves)

i. Open Market Operations (5 marks)

ii. Discount Lending (5 marks)

iii. Reserve Requirement (5 marks)

- b) During the financial crisis the U.S. federal government decided to embark on a "**Large-scale Asset Purchase**". What are these and how is it supposed to revive the economy?
(5 marks)

- c) What are the differences between "Dynamic Open Market" versus "Defensive Open Market" Operation?

(5 marks)

Total: 25 Marks

Question 5

- a) Aside from price stability as the primary monetary goals of the central bank, what other goals pursued by central bank.

Provide at least 4 more goals pursued by them and why these goals are important?

(12 marks)

- b) There recognition that price stability should be the primary long-run goal of monetary policy is a valuable tool in helping to achieve the goal has led the monetary policy strategy known as inflation targeting.

Provide the at least TWO advantages and disadvantages of pursuing the Inflation targeting policy?

- c) Provide an explanation behind the following statement - "**Price and Output Stability did not ensure financial Stability**"?

(5 marks)

Total: 25 Marks

END OF QUESTION PAPER

