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INTERNATIONAL COLLEGE PENANG (507232-U)
LAUREATE INTERNATIONAL UNIVERSITIES

FINAL
Examination Paper
(COVER PAGE)

Session : April 2015

Programme : Diploma In Finance (DIF)

Course : **FIN2153: Fundamental Of Banking**

Date of Examination : 5 August 2015, (Wednesday)

Time : 11.00 am – 1.00 pm

Duration : 2 Hours Reading Time : Nil

Special Instructions :

This paper consists of **SIX (6)** questions. Answer **ANY FOUR (4)** questions in the answer booklet provided. **ALL QUESTIONS CARRY EQUAL MARKS.**

IMPORTANT NOTE : THIS PAPER SHOULD NOT BE TAKEN OUT OF THE EXAMINATION HALL

Materials Permitted : Nil

Materials Provided : Nil

Examiner(s) : Ms. Cecilia Choo

Moderator : Dr. Song Saw Im

This paper consists of 4 printed pages, including the cover page.

INTI INTERNATIONAL COLLEGE PENANG
DIPLOMA IN FINANCE PROGRAMME (DIF)
FIN 2153: FUNDAMENTALS OF BANKING
FINAL EXAMINATIONS: APRIL 2015 SESSION

Instructions: This paper consists of **SIX (6)** questions. Answer any **FOUR (4)** questions in the answer booklet provided. All questions carry equal marks.

Question 1

The central bank started out as the government's bank and over the years added various other functions. A modern central bank not only manages the government's finances but provides an array of services to commercial banks.

- (a) One of the services offered by the central bank is to act as the banker's bank. Outline three of the central bank's key roles as a banker's bank.

(6 marks)

- (b) The job of the central bank is to improve general economic welfare by managing and reducing systematic risk. Therefore, central bankers work to reduce the volatility of the economic and financial system by pursuing five specific objectives where it is probably impossible to achieve all simultaneously which might lead to trade-off. Elaborate three out of the five objectives of the central bank.

(9 marks)

- (c) Bank Negara Malaysia has played a significant developmental role in developing the financial system infrastructure in advancing the financial inclusion agenda. This is to ensure all economic sectors and segments of the society have access to financial services. In addition, Bank Negara Malaysia also oversees the nation's payment systems infrastructure which emphasize on the efficiency and security of the financial systems. The roles of the Bank Negara Malaysia are supported by 39 departments/units in the bank covering seven functional areas. States five of the functional areas of Bank Negara Malaysia.

(10 marks)

(Total: 25 marks)

Question 2

Banks are vital institutions in any society as they significantly contribute to the development of an economy through facilitation of business. Banks also facilitate the development of saving plans and are instruments of the government's monetary strategy among others.

- (a) How are the banks able to significantly contribute to the development of an economy through facilitation of business? Outline three of the banks' contributions. (6 marks)
- (b) Banks contribute to the development of a country's economy by creating credit or deposits. How does the bank do it? (13 marks)
- (c) What are the limitations on the power of commercial banks to create credit? State three of the limitations. (6 marks)
- (Total: 25 marks)

Question 3

A financial market is a broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees, and market forces determining the prices of securities that trade.

Investors have access to a large number of financial markets and exchanges representing a vast array of financial products. Some of these markets have always been open to private investors; others remained the exclusive domain of major international banks and financial professionals until the very end of the twentieth century. Explain the functions of each of the below financial markets:

- (a) Capital Market (10 marks)
- (b) Money Market (5 marks)
- (c) Derivatives Market (5 marks)
- (d) The OTC (Over-The-Counter) Market (5 marks)
- (Total: 25 marks)

Question 4

- (a) Define Depository Institutions with examples. (3 marks)
- (b) In Malaysia, under the Banking and Financial Institutions Act (BAFIA) 1989, a "bank" is defined as "a person which carries on banking business". "Banking business" in turn is defined as: "the business of" (3 marks)

- (c) The “provision of finance” under BAFIA includes
(5 marks)
- (d) One of the functions of commercial bankers is “retail banking services such as acceptance of deposits, granting of loans and advances and financial guarantees”. Commercial bankers accept three types of deposits. Identify and explain the three type of deposits.
(14 marks)

Question 5

- (a) What do you understand of “non-depository financial institutions”? Explain with examples.
(5 marks)
- (b) Briefly discuss the below non-depository financial institutions:
i. Insurance Companies
ii. Superannuation Funds
iii. Malaysian Building Society
(15 marks)
- (c) Explain the difference between depository and non-depository institution?
(5 marks)

Question 6

- (a) Letter of credit (L/C) is one of the international trade finance product. Brief explain the benefits of this trade finance product, identify the parties involved in the transactions as well as the relationship between the parties involved.
(8 marks)
- (b) Why would an exporter insist on a confirmed letter of credit?
(5 marks)
- (c) What are the advantages and disadvantages of Letter of Credit?
(12 marks)
(Total: 25 marks)