



**INTI**

INTERNATIONAL COLLEGE PENANG (507232-U)  
LAUREATE INTERNATIONAL UNIVERSITIES

Final  
Examination Paper

(COVER PAGE)

Session : August 2017

Programme : DIPLOMA IN FINANCE

Course : **FIN2153: FUNDAMENTALS OF BANKING**

Date of Examination : 12th December 2017 (Tuesday)

Time : 11.00am-1.00pm Reading Time : Nil

Duration : 2 Hours

Special Instructions :

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

Materials permitted :

Non-Programmable Calculator

Materials provided :

Answer booklet

Examiner(s) : **Ms. Eunice Mok Pei Sei**

Moderator : **Dr. Phua Lian Kee**

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

INTI INTERNATIONAL COLLEGE PENANG  
DIPLOMA IN FINANCE (DIF)  
FIN2153: FUNDAMENTALS OF BANKING  
FINAL EXAMINATION: AUGUST 2017 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**

- a) What is the definition of money? Discuss the **THREE (3)** main function of money. (15 marks)
- b) What are the **FIVE (5)** characteristics of money? (10 marks)

**Question 2**

- a) A central bank plays an important role in monetary and banking system of a country, It is responsible for maintaining financial sovereignty and economic stability of a country. Central bank is also oversees the nation's payment systems infrastructure which emphasize on the efficiency and security of the financial system. The role of the central bank are supported by 39 departments in the bank covering seven functions arears. State the **FIVE (5)** main primary function of the central bank. (15 marks)
- b) Explain the meaning of money multiplier by giving an appropriate example. (5 marks)
- c)
- i) Suppose you deposit \$1,000 in a bank and the reserve requirement is 0.25. If the banking system has zero excess reserves, determine the total amount of new money (not counting your deposit) that can be created? (2.5 marks)
- ii) Suppose that total reserves = \$1,000,000, demand deposits = \$5,000,000, and the legal reserve requirement is 10 percent. How large are the bank's excess reserves? (2.5 marks)

**Question 3**

- a) Contrast the differences between monetary policy and fiscal policy. (10 marks)
- b) A central bank is an institution responsible for determining the monetary policy of a nation. Discuss the THREE (3) main monetary policy tools use by the central bank to shape monetary policy. (15 marks)

**Question 4**

- a) What are economies of scale in financial transactions? How can financial intermediaries achieve these economies? (5 marks)
- b) Distinguish between direct financing and indirect financing. Discuss whether direct or indirect finance is a more important source of funds and why this is the case. Give at least one example of each – a direct finance transaction and an indirect finance transaction in which you personally can engage in. (10 marks)
- c) Discuss the FIVE (5) functions of financial intermediaries. (10 marks)

**Question 5**

- a) Distinguish between primary markets and secondary markets from the basis of nature of securities AND the party involves in the transaction. (10 marks)
- b) If a bank is falling short of meeting its capital requirements by \$1million, what are the THREE (3) things it can do to rectify the situation? (9 marks)

- c) NewBank started its first day of operations with \$6 million in capital. \$100 million in checkable deposits is received. The bank issues a \$25 million commercial loan and another \$25 million in mortgages, with the following terms:
- Mortgages: 100 standard 30-year, fixed-rate with a nominal annual rate of 5.25% each for \$250,000.
  - Commercial loan: 3-year loan, simple interest paid monthly at 0.75%/month. If required reserves are 8%, how does the bank balance sheets look like? Ignore any loan loss reserves. (6 marks)

**Question 6**

- a) Discuss on the process of investment bank underwrite a security offering in detail. How the investment bank take the risk of distributing the securities? (10 marks)
- b) Discuss the THREE (3) stages of money laundering cycle with an example for each stages. (15 marks)

**- The End -**

*FIN2153 (F)/August 2017*