FINAL
Examination Paper

(COVER PAGE)

Session	:	January 2020
Programme	:	Diploma in Finance (DFIN)
Course	:	**FIN2152: Financial Market**
Date of Examination	:	16^{th} March 2019 (Monday)
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.

Materials permitted	:	Nil
Materials provided	:	Answer Booklet

Examiner (s)	:	**Mr. Fan Chen Keat**
Moderator	:	Mr. Lim Tan Chin

This paper consists of **5** printed pages, including the cover page.

DIPLOMA IN FINANCE (DFIN)
FIN2152: FINANCIAL MARKET
FINAL EXAMINATION: JANUARY 2020 SESSION

Instruction: 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) Describe the **THREE (3)** basic characteristics of money market securities.
(6 marks)

(b) Explain why money market securities is needed, despite the existence of the banking industry.
(4 marks)

(c) Describe each of the following money market instruments;

(i)	Federal Funds	(3 marks)
(ii)	Repurchase agreements	(3 marks)
(iii)	Negotiable certificate of deposits	(3 marks)
(iv)	Commercial paper	(3 marks)
(v)	Bankers acceptances	(3 marks)

(Total = 25 marks)

Question 2

(a) Explain about the interest rate risk and price risk faced by the bond investors.
(4 marks)

(b) Define the following items used in bond terminology;

(i)	Coupon interest rate	(2 marks)
(ii)	Current yield	(2 marks)
(iii)	Face amount (or par value)	(2 marks)
(iv)	Indenture	(2 marks)
(v)	Market rate	(2 marks)
(vi)	Maturity	(2 marks)
(vii)	Yield to maturity	(2 marks)

(c) What is the price of two-year, 10% coupon bond (semi-annual coupon payments) with a face value of $1,000,000 and a required rate of return of 12%?
(5 marks)

(d) What is the current yield for a bond with a face value of $1,000,000 and a current price of $921,010, and a coupon rate of 10.95%?
(2 marks)

(Total = 25 marks)

Question 3

(a) How does investing in shares differ from investing in bonds?

(10 marks)

(b) Calculate the market price of a stock assuming dividends grow at a constant rate of 10.95 %, the most recent dividend paid, $D_0 =$ \$2.00 and the required rate of return is 13%.

(4 marks)

(c) Briefly explain the **TWO (2)** assumptions made in the Gordon Growth Model.

(4 marks)

(d) The average industry Price Earnings (PE) ratio for businesses similar to Bumblebee is 16. What is the current price of Bumblebee if earnings per share are projected to be \$2.26? What are the usefulness and weaknesses of using the average industry PE approach for valuation?

(4 marks)

(e) How does superior information play an important role in pricing of securities, in a competitive market?

(3 marks)

(Total = 25 marks)

Question 4

(a) Describe the **TWO (2)** kinds of exchange rate transactions make up the foreign exchange market.

(4 marks)

(b) The four major factors that affect the exchange rates of Ringgit Malaysia in the long run are:-

(i) relative price levels,
(ii) tariffs and quotas,
(iii) preferences for Malaysian goods versus foreign goods, and
(iv) productivity

Required:

Explain how each of the factors, affect the exchange rates of Ringgit Malaysia in the long run.

(16 marks)

(c) Malaysia's home currency is Ringgit Malaysia, RM. Malaysia deals with a foreign partner EUZINLAND whose currency is denominated in EUZI. On 1 January 2019, one EUZI was valued at RM 1.18 (or 1 RM = 0.847 EUZI). On Dec 31, 2019, one EUZI was valued at RM 1.1132 (or 1 RM = 0.898 EUZI).

From 1 January 2019 until 31 December 2019, calculate;

(i) the % of appreciation or depreciation of EUZI as compared against RM
(2.5 marks)

(ii) the % of appreciation or depreciation of RM as compared against EUZI
(2.5 marks)

(Total = 25 marks)

Question 5

(a) Explain how financial derivatives are so effective in reducing risk.
(6 marks)

(b) What are the **TWO (2)** problems that severely limit the usefulness of forward contracts?
(6 marks)

(c) Why are futures market more successful and have more advantages, than the forward contracts market?
(8 marks)

(d) Describe how option works, and explain the **THREE (3)** factors that affect the price of option premiums.
(5 marks)

(Total = 25 marks)

Question 6

(a) Explain how asymmetric information in financial markets can lead to adverse selection and moral hazard problems.

(b marks)

(b) Describe two of the important functions of financial markets.

(4 marks)

(c) The Balance Sheet of Third National Bank, currently shows:

	RM' million
Assets:	
Reserves	3.5
Loans	90.0
Securities	10.0
Total Assets	103.5
Deposits	100.0
Capital	3.5
Total deposits and capital	103.5

Bank Negara requires each bank to keep a minimum of 3% of deposits, as Reserves.

(i) Calculate the current amount of surplus reserves of Third National Bank.

(2 marks)

(ii) Calculate the amount of shortfall of reserves of Third National Bank, if its depositors would to withdraw RM3.5 million from the bank.

(3 marks)

(iii) State four ways that Third National Bank can apply to address the shortfall of reserves in (ii) above.

(8 marks)

(Total = 25 marks)

~ The End ~