UNIRAZAK
UNIVERSITI TUN ABDUL RAZAK

FINAL EXAMINATION
MARCH 2024

COURSE TITLE	MONEY| BANKING AND FINANCIAL MARKETS
COURSE CODE	TECO4533
DATE/DAY	24 JUNE 2024 / MONDAY
TIME/DURATION	02:00 PM - 04:00 PM / 02 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 2 Printed Pages including front page)

DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO

There are TWO (2) questions in this examination paper. Answer ALL questions on the answer booklet provided.   **[100 MARKS]**

Question 1   (70 Marks)

a) John owns a large construction company. He is exploring all financing options to expand his business. He recently met with a banker and exploring the option of getting a loan from a bank. Such arrangement is known as indirect finance. However, the bank charges a high interest rate.

   Explain what other financing option that is available to John. Compare the advantages and disadvantages of the proposed option to the option of indirect finance (getting loan from a bank).
                                                                                (15 marks)

b) Banks can function as financial intermediaries because they can perform risk transformation, asset transformation and maturity transformation. Explain these three transformations with examples.   (15 marks)

c) Explain moral hazards and adverse selection. What are the actions / processes that banks can carry out to prevent them?   (20 marks)

d) There is a huge debate of whether Bitcoin can replace currency as money. Evaluate how Bitcoin performs as a medium of exchange, store of value and unit of account.   (20 marks)

Question 2   (30 marks)

Jane is presented with two bonds, i.e., Bond ABC and Bond XYZ. Both of the bonds have the same coupon rate at 5% p.a. with once-a-year compounding frequency, yield-to-maturity at 3.5% p.a., and face value of RM1,000. However, Bond ABC has 3 years to maturity, while Bond XYZ has 4 years.

   i.   Compute the price of Bond ABC and Bond XYZ, respectively.   (12 marks)

   ii. Compute the modified duration of Bond ABC and Bond XYZ, respectively.   (12 marks)

   iii. If interest rate is expected to increase by 1%, make use of the computed modified duration above to compute the price change of Bond ABC and Bond XYZ, respectively.   (6 marks)

*** END OF QUESTION PAPER ***