



FINAL EXAMINATION

BACHELOR OF BUSINESS ADMINISTRATION (HONOURS)

COURSE : INTERNATIONAL FINANCE

COURSE CODE : FIN4253

DURATION : 3 HOURS

INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **TWO (2)** parts : PART A (3 questions)
: PART B (3 questions)
2. Answer **ALL** questions from PART A and PART B.
3. Please check to make sure that this examination pack consists of:
 - i. The Question Paper
 - ii. An Answer Booklet
4. Do not bring any material into the examination hall. The use of a calculator is allowed.
5. Please write your answer using permanent ink.

MYKAD/ PASSPORT NO : _____

ID. NO. : _____

LECTURER : _____

SECTION : _____

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

This question paper consists of 6 printed pages including the front page.

PART A

QUESTION 1

- A. Describe **TWO (2)** types of international financial flows and their significance to a country's economic development. (5 marks)

- B. In 2025, the British pound weakens against the Japanese yen, moving from an exchange rate of £1 = ¥150 to ¥165 and Malaysian ringgit from £1 = RM6 to RM5.40. A UK importer purchases Japanese electronics valued at ¥300,000, while a UK exporter sells specialised machinery to Malaysia priced at £3,000.

Required:

Find the cost of electronic for UK importer in pound and price of machinery for UK exporter in ringgit before and after depreciates.

(5 marks)

(Total: 10 marks)

QUESTION 2

- A. Explain why an increase in domestic interest rates leads to an appreciation of the domestic currency. (5 marks)

- B. In 2025, the average price level for a standard consumption basket in Malaysia is RM600, while in Japan it is ¥15,000. Malaysia experiences 4% inflation in 2026 and Japan experiences 1% inflation.

Required:

Estimate the expected exchange rate and inflation rate for 2026 under absolute and relative Purchasing Power Parity (PPP).

(5 marks)

(Total: 10 marks)

QUESTION 3

- A. Describe how a temporary increase in the money supply affects the AA curve and short-run output.

(5 marks)

- B. Explain how a central bank's sale of foreign assets affects the domestic money supply and the exchange rate under a fixed exchange rate system.

(5 marks)

(Total: 10 marks)

(TOTAL: 30 MARKS)

PART B

QUESTION 1

In 2024 and 2025, Japan experienced one of its sharpest currency depreciations in decades, with the yen falling past ¥160 per USD, reaching its weakest level since 1986. Analysts widely attributed this decline to Japan's persistently low inflation, ultra-loose monetary policy, and significant interest-rate differentials compared with the United States. While U.S. inflation remained higher and the Federal Reserve maintained stronger interest rates, Japan's near-zero interest rates reduced foreign investors' demand for yen assets. According to PPP theory, differences in price levels and inflation rates influence long-run exchange rates, and Japan's slow price growth contributed to weaker purchasing power of the yen internationally.

The depreciation had wide impacts on Japan's economy. Imported goods including food, fuel, and raw materials became more expensive, causing households to face rising living costs. Japanese firms that relied heavily on imports saw higher production costs, while exporters such as automotive and electronics companies benefited from a more competitive currency.

Required:

- a. Analyse how Purchasing Power Parity (PPP) helps to interpret Japan's yen depreciation in 2024 and 2025.
(6 marks)
- b. Examine the link between the Fisher Effect, Japan's sustained low-interest rate policies and the depreciation of the yen.
(6 marks)
- c. The price level in Japan is ¥120,000 for a standard consumption basket, while the price level for the same basket in the U.S. is \$1,000. Using Absolute PPP, calculate the expected long-run exchange rate (¥/\$).
(3 marks)
- d. In 2024, U.S. inflation is 4% and Japan's inflation is 1%. The current exchange rate is ¥150 per USD. Using Relative PPP, calculate the projected exchange rate and percentage change for 2025 and 2026.
(5 marks)

(Total: 20 marks)

QUESTION 2

Japan experienced one of the sharpest currency depreciations in its modern history. The Japanese yen weakened from around ¥115/USD in early 2022 to over ¥150/USD in 2024 due to widening interest rate differentials between Japan and the United States. While the U.S. Federal Reserve increased interest rates aggressively to combat inflation, the Bank of Japan (BOJ) maintained its ultra-loose monetary policy with near-zero interest rates.

In the short run, the yen depreciation had significant impacts on Japan's output and aggregate demand. According to the DD-AA framework, a weaker yen (higher E) makes Japanese goods cheaper for foreigners and foreign goods more expensive domestically. This led to a sharp rise in net exports, increasing aggregate demand and shifting Japan's output toward export-driven growth. Industries such as automotive, electronics, and manufacturing reported higher export orders, contributing to temporary output expansion.

However, the yen's weakness also caused imported inflation, raising the cost of food, energy, and raw materials. This reduced disposable income, compressed consumption expenditure, and weakened domestic demand. The BOJ kept monetary policy unchanged despite rising inflation, causing expectations of further currency depreciation shifting the AA curve further upward. While Japan experienced export-sector expansion, the overall impact on output remained mixed: exporters benefited, but households and small firms faced cost pressures, illustrating the complex short-run dynamics between exchange rates, output, and policy decisions.

Required:

- a. Using the DD-AA model, analyse how a depreciation of the Japanese yen from ¥115/USD to ¥150/USD affects Japan's aggregate demand and short-run output.
(8 marks)
- b. Classify **TWO (2)** factors from the determinants of aggregate demand that contributed to output fluctuations in Japan.
(6 marks)
- c. Japan maintained a loose monetary policy while the U.S. raised interest rates. Using the AA curve, analyse how interest rate differentials influenced yen depreciation.
(6 marks)

(Total: 20 marks)

QUESTION 3

During the 1997–1998 Asian Financial Crisis, Malaysia's ringgit depreciated sharply, causing financial instability and rising foreign-currency debt burdens. To restore confidence, Bank Negara Malaysia (BNM) fixed the exchange rate at RM3.80 per USD on 1 September 1998. Maintaining this peg required continual intervention in the foreign exchange market. When depreciation pressure occurred, BNM sold U.S. dollars and bought ringgit, reducing the domestic money supply and raising interest rates—an adjustment consistent with the central bank balance-sheet mechanics explained in the slides. Because the exchange rate had to remain fixed, any attempt to use monetary policy was neutralised: if BNM expanded the money supply, it immediately had to reverse it by intervening to defend the peg, making monetary policy ineffective.

In contrast, fiscal policy became more effective. Government spending raised output and interest rates, which created appreciation pressure on the ringgit. To maintain the fixed rate, BNM bought foreign assets and supplied more ringgit, expanding the money supply and reinforcing the fiscal stimulus. Thus, Malaysia's 1998–2005 experience clearly demonstrates the theoretical predictions that a fixed exchange rate renders monetary policy ineffective while strengthening the impact of fiscal policy through mandatory central bank intervention.

Required:

- a. Classify how Bank Negara Malaysia used foreign exchange market intervention to maintain the RM3.80/USD peg. Relate your answer to central bank assets, liabilities, and the domestic money supply.
(10 marks)
- b. Analyse why monetary policy was ineffective in Malaysia during the fixed exchange rate period (1998–2005). Use the AA–DD model.
(10 marks)
- c. Identify the effectiveness of fiscal policy during Malaysia's fixed exchange rate period and the central bank's role in maintaining the peg.
(10 marks)

(Total: 30 marks)

(TOTAL: 70 MARKS)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER