

CONTENTS

Chapter 1

KEY ECONOMIC CONCEPTS

	1-1	
1	Introduction to Economics	1-2
2	Economic System	1-4
3	Sectors of the Economy	1-9
4	Concept of Scarcity, Choice and Opportunity Costs	1-11
5	Summary	1-13

Chapter 2

FACTORS OF PRODUCTION

	2-1	
1	The Concept of Production	2-2
2	The Four Important Factors of Production	2-4
3	Summary	2-5

Chapter 3

THE DEMAND AND SUPPLY MODEL

	3-1	
1	The Concept of Demand	3-2
2	Factors Influencing Demand	3-4
3	The Concept of Supply	3-8
4	Factors Influencing Supply	3-10
5	Summary	3-12

Chapter 4

THE CONCEPT OF ELASTICITY

	4-1	
1	The Concept of Elasticity	4-2
2	Price Elasticity of Demand	4-3
3	Income Elasticity of Demand	4-6
4	Cross-Elasticity of Demand	4-8
5	Price Elasticity of Supply	4-9
6	Summary	4-11

Chapter 5

PRICE DETERMINATION

	5-1	
1	Market Mechanism	5-2
2	Market Demand and Supply	5-3
3	Equilibrium	5-4
4	Disequilibrium	5-5
5	Shifts in the Demand and Supply Curve	5-5
6	Summary	5-8

Chapter 6

INCOME, CONSUMPTION, SAVING AND INVESTMENTS

	6-1	
1	The Concept of Income	6-2
2	Concept of Consumption, Saving and Investment	6-3
3	Summary	6-4

Chapter 7		
NATIONAL INCOME		7-1
1	What is National Income	7-2
2	Gross Domestic Product	7-4
3	How to Measure National Income	7-4
4	Effects of Changes in the Levels of Consumption, Investment and Saving	7-10
5	Summary	7-13
Chapter 8		
BALANCE OF PAYMENTS		8-1
1	What is Balance of Payments	8-2
2	Components of BOP	8-3
3	The BOP in Full	8-6
4	The Corrective Measures	8-8
5	Summary	8-9
Chapter 9		
INFLATION		9-1
1	Definition and Types of Inflation	9-2
2	Benefits, Cost and Controls of Inflation	9-5
5	Summary	9-7
Chapter 10		
UNEMPLOYMENT		10-1
1	What is Unemployment	10-2
2	Types of Unemployment	10-3
3	Factors Affecting Unemployment	10-4
4	Phillips Curve	10-5
6	Summary	10-5
Chapter 11		
MONEY AND INTEREST RATES		11-1
1	Historical Development of Money	11-2
2	Types of Money	11-4
3	Functions and Motives for Holding Money	11-5
4	Measurement of Money	11-7
5	Demand and Supply of Money	11-8
6	Credit Creation	11-8
7	The Concept of Interest Rates	11-10
8	Summary	11-11
Chapter 12		
THE FINANCIAL FRAMEWORK		12-1
1	The Malaysian Economy – Background	12-2
2	The Structure of the Malaysian Financial System	12-4
3	Principles of Financial Intermediation	12-5
4	Sources and Flow of Funds in the Financial System	12-7
5	Measures to Develop the Financial System	12-10
6	Summary	12-15

Chapter 13	
FINANCIAL MARKETS	13-1
1 Money Market and Capital Market	13-2
2 Foreign Exchange Market	13-5
3 Futures and Option Market	13-9
4 Financial Instrument	13-13
6 Summary	13-17
Chapter 14	
THE CENTRAL BANK	14-1
1 Bank Negara Malaysia	14-2
2 Major Functions of Bank Negara Malaysia	14-4
3 The Banking and Financial Institutions Act 1989	14-10
8 Summary	14-11
Chapter 15	
MONETARY POLICY	15-1
1 Monetary Policy	15-2
2 Monetary Policy Instruments Used	15-4
3 Applications of the Monetary Policy	15-10
6 Summary	15-11
Chapter 16	
MAJOR FINANCIAL INSTITUTIONS	
1 Commercial Banks	16-2
2 Finance Companies	16-8
3 Merchant Banks	16-15
4 Discount Houses	16-19
5 Savings Banks	16-23
6 Development Finance Institutions	16-23
7 Summary	16-28
Chapter 17	
ISLAMIC BANKING	17-1
1 Concept of Islamic Banking	17-2
2 The Operations of the Islamic Banking System	17-7
3 The Instruments of the Islamic Banking System	17-9
4 The Islamic Money Market	17-10
6 Summary	17-12
Appendix	
OTHER FINANCIAL INSTITUTIONS	18-1
1 Provident and Pension Funds	18-2
2 Insurance Companies	18-4
3 Housing Credit Institutions	18-6
4 Unit Trusts	18-7
5 Leasing and Factoring Companies	18-8
GLOSSARY	G-1

Preface

Institut Bank-Bank Malaysia initiated the development of this manual primarily to cater for students preparing for the 'Introduction to Monetary Economics and the Malaysian Financial System' (CF01) paper of the IBBM *Banking and Financial Services Certificate* examination. The manual was written to meet the requirements of the subject syllabus. The self assessment questions are designed to test students' understanding of the concepts.

Whilst the text may be sufficient to handle the scope of the questions asked in the examination, students are strongly encouraged to read widely to enhance their knowledge and scope of the subject. Additionally, to be on top of the subject matter, students are also encouraged to keep abreast with the changes in the financial services sector. Reading materials are easily available in the business section of most local newspapers. It is a good practice to keep interesting newspaper cuttings as a form of reference.

The financial structure in Malaysia has undergone a great deal of changes, particularly beginning July 1997 when the region was struck with the financial crisis. The Government of Malaysia has introduced many policy measures which are discussed in this manual. The facts contained in this manual are as recent as December 1998. These facts will change from time to time, but nevertheless, the concepts will remain.

I was indeed fortunate to be given the task of writing this manual. It has inadvertently kept me on my toes with the latest changes in the financial world. To this, I wish to thank the Institute for its confidence and trust in me. Undertaking the research work has greatly enhanced my knowledge, writing skills and presentation styles.

I would like to take this opportunity to thank Joanna Chuah and Karen Yeoh for their patience and understanding while the manual was being prepared, and I hope that this manual would meet the needs of the students.

Woo Kin Fai