



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF MANAGEMENT SCIENCES**

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ECONOMICS	
QUALIFICATION CODE: O7BEC0	LEVEL: 7
COURSE CODE: MAB611S	COURSE NAME: MONEY AND BANKING
SESSION: JUNE 2022	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL the questions.2. Write clearly and neatly.3. Number the answers clearly.

PERMISSIBLE MATERIALS

1. Pens/pencils/erasers
2. Calculator
3. Ruler

THIS QUESTION PAPER CONSISTS OF 6 PAGES (Including this front page)

QUESTION 1

[20 Marks]

Select the letter that best represents your choice.

1. **Financial markets promote greater economic efficiency by channeling funds from _____ to _____.**
A) investors; savers
B) borrowers; savers
C) savers; borrowers
D) savers; lenders

2. **An increase in interest rates might _____ saving because more can be earned in interest income.**
A) encourage
B) discourage
C) disallow
D) invalidate

3. **A financial market in which previously issued securities can be resold is called a _____ market.**
A) primary
B) secondary
C) tertiary
D) used securities

4. **Equity instruments are traded in the _____ market.**
A) money
B) bond
C) capital
D) commodities

5. **Economies of scale enable financial institutions to**
A) reduce transactions costs.
B) avoid the asymmetric information problem.
C) avoid adverse selection problems.
D) reduce moral hazard.

6. **The total collection of pieces of property that serve to store value is a person's**
A) wealth.
B) income.
C) money.
D) credit.

7. **When money prices are used to facilitate comparisons of value, money is said to function as a**
A) unit of account.
B) medium of exchange.
C) store of value.
D) payments-system ruler.
8. **Which of the following sequences accurately describes the evolution of the payments system?**
A) barter, coins made of precious metals, paper currency, checks, electronic funds transfers
B) barter, coins made of precious metals, checks, paper currency, electronic funds transfers
C) barter, checks, paper currency, coins made of precious metals, electronic funds transfers
D) barter, checks, paper currency, electronic funds transfers
9. **A credit market instrument that requires the borrower to make the same payment every period until the maturity date is known as a**
A) simple loan.
B) fixed-payment loan.
C) coupon bond.
D) discount bond.
10. **If a N\$5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is**
A) N\$650.
B) N\$1,300.
C) N\$130.
D) N\$13.
11. **A bond that is bought at a price below its face value and the face value is repaid at a maturity date is called a**
A) simple loan.
B) fixed-payment loan.
C) coupon bond.
D) discount bond.
12. **The price of a consol equals the coupon payment**
A) times the interest rate.
B) plus the interest rate.
C) minus the interest rate.
D) divided by the interest rate.

13. If the expected return on bonds increases, all else equal, the demand for bonds increases, the price of bonds _____, and the interest rate _____.
- A) increases; decreases
 - B) increases; increases
 - C) decreases; decreases
 - D) decreases; increases
14. If people expect real estate prices to increase significantly, the _____ curve for bonds will shift to the _____, everything else held constant.
- A) demand; right
 - B) demand; left
 - C) supply; left
 - D) supply; right
15. Property that is pledged to the lender in the event that a borrower cannot make his or her debt payment is called
- A) collateral.
 - B) points.
 - C) interest.
 - D) good faith money.
16. All of the following are nontransaction deposits EXCEPT
- A) savings accounts.
 - B) small-denomination time deposits.
 - C) checkable deposits.
 - D) certificates of deposit.
17. High-powered money minus reserves equals
- A) reserves.
 - B) currency in circulation.
 - C) the monetary base.
 - D) the nonborrowed base.
18. If the Bank of Namibia decides to reduce bank reserves, it can:
- A) purchase government bonds.
 - B) extend discount loans to banks.
 - C) sell government bonds.
 - D) print more currency.
19. Banks earn profits by selling _____ with attractive combinations of liquidity, risk, and return, and using the proceeds to buy _____ with a different set of characteristics.
- A) loans; deposits
 - B) securities; deposits
 - C) liabilities; assets
 - D) assets; liabilities

20. There are two ways in which the Fed can provide additional reserves to the banking system: it can _____ government bonds or it can _____ discount loans to commercial banks.
- A) sell; extend
 - B) sell; call in
 - C) purchase; extend
 - D) purchase; call in

QUESTION 2

[30 Marks]

- I. What crucial role do financial intermediaries perform in an economy? (4)
- II. Classify each of these transaction as an asset, a liability, or neither for each of the “players” in the money supply process – the central bank, banks, and depositors. (10)
- A. You get a N\$ 500 000 loans from Nedbank to buy a house.
 - B. You deposit N\$1000 into your checking account at Bank Windhoek.
 - C. Bank of Namibia provides an emergency loan of N\$ 100 000 000 to commercial bank.
 - D. Bank A borrows N\$25000 in overnight loans from Bank C.
 - E. You use your debit card to purchase a meal at a restaurant for N\$1000.
- III. How can Banks manage their assets and liabilities to earn the highest possible profit? (4)
- IV. How do financial institutions overcome the adverse selection and moral hazard problems that make the loan default more likely? (10)
- V. “The money multiplier is necessarily greater than 1.” Is this statement true, false, or uncertain? Explain your answer. (2)

QUESTION 3**[50 Marks]**

- a) What is the real interest rate if the nominal interest rate is 8% and the expected inflation rate is 10% over the course of a year? Show all your calculations. (3)
- b) Assume you just deposited \$1,250 into a bank account. The current real interest rate is 1%, and the expected rate of inflation over the next year is 5%. What nominal interest rate should the bank charge you over the next year? (4)
- c) What is the price of a perpetuity that has a coupon of \$70 per year and a yield to maturity of 1.5%? If the yield to maturity doubles, what will happen to the perpetuity's price? (10)
- d) What is the yield to maturity on a \$10,000-face-value discount bond, maturing in one year, which sells for \$9,523.81? (8)
- e) What is the yield to maturity on a simple loan for \$1,500 that requires a repayment of \$15,000 in five years? (8)
- f) If a bank is falling short of meeting its capital requirements by \$1 million, what three things can it do to rectify the situation? (3)
- g) Rank the following assets from most liquid to least liquid: (14)
- i. Land
 - ii. The inventory of a merchandiser
 - iii. Cash in hand
 - iv. A savings account at a local bank
 - v. A one-year bond
 - vi. Ordinary shares
 - vii. House

TOTAL = 100 MARKS