



**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF MANAGEMENT SCIENCES**

**DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE**

<b>QUALIFICATION: BACHELOR OF ECONOMICS</b>	
<b>QUALIFICATION CODE: O7BECO</b>	<b>LEVEL: 7</b>
<b>COURSE CODE: MAB611S</b>	<b>COURSE NAME: MONEY AND BANKING</b>
<b>SESSION: JULY 2019</b>	<b>PAPER: THEORY</b>
<b>DURATION: 3 HOURS</b>	<b>MARKS: 100</b>

<b>SECOND OPPORTUNITY EXAMINATION QUESTION PAPER</b>	
<b>EXAMINER(S)</b>	Ms Kasnath Kavezeri Mr Immanuel Nashivela Mr Eden Shipanga
<b>MODERATOR:</b>	Mr Mally Likukela

<b>INSTRUCTIONS</b>
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** [25 Marks]

Select the letter that best represents your choice.

**1. Currency includes**

- a) Paper money and coins.
- b) Paper money, coins, and checks.
- c) Paper money and checks.
- d) Paper money, coins, checks, and savings deposits.

**2. Poorly performing financial markets can be the cause of**

- a) Wealth.
- b) Poverty.
- c) Financial stability.
- d) Financial expansion.

**3. High interest rates might \_\_\_\_\_ purchasing a house or car but at the same time high interest rates might \_\_\_\_\_ saving.**

- a) Discourage; encourage
- b) Discourage; discourage
- c) Encourage; encourage
- d) Encourage; discourage

**4. Stock prices are**

- a) Relatively stable trending upward at a steady pace.
- b) Relatively stable trending downward at a moderate rate.
- c) Extremely volatile.
- d) Unstable trending downward at a moderate rate.

**5. Financial institutions search for \_\_\_\_\_ has resulted in many financial innovations.**

- a) Higher profits
- b) Regulations
- c) Respect
- d) Higher risk

**6. Which of the following is NOT a financial institution?**

- a) A life insurance company
- b) A pension fund
- c) A credit union
- d) A business college

**7. The delivery of financial services electronically is called**

- a) E-business.
- b) E-commerce.
- c) E-finance.
- d) E-possible.

**8. Money is defined as**

- a) Bills of exchange.
- b) Anything that is generally accepted in payment for goods or services or in the repayment of debt.
- c) A risk-free repository of spending power.
- d) The unrecognized liability of governments.

**9. Which of the following statements about the characteristics of debt and equities is TRUE?**

- a) They can both be long-term financial instruments.
- b) Bond holders are residual claimants.
- c) The income from bonds is typically more variable than that from equities.
- d) Bonds pay dividends.

**10. Long-term debt has a maturity that is**

- a) Between one and ten years.
- b) Less than a year.
- c) Between five and ten years.
- d) Ten years or longer.

**11. When I purchase \_\_\_\_\_, I own a portion of a firm and have the right to vote on issues important to the firm and to elect its directors.**

- a) Bonds
- b) Bills
- c) Notes
- d) Stock

**12. \_\_\_\_\_ work in the secondary markets matching buyers with sellers of securities.**

- a) Dealers
- b) Underwriters
- c) Brokers
- d) Claimants

**13. An important function of secondary markets is to**

- a) Make it easier to sell financial instruments to raise funds.
- b) Raise funds for corporations through the sale of securities.
- c) Make it easier for governments to raise taxes.
- d) Create a market for newly constructed houses.

**14. Secondary markets make financial instruments more**

- a) Solid.
- b) Vapid.
- c) Liquid.
- d) Risky.

15. A financial market in which only short-term debt instruments are traded is called the \_\_\_\_\_ market.
- a) Bond
  - b) Money
  - c) Capital
  - d) Stock
16. Equity and debt instruments with maturities greater than one year are called \_\_\_\_\_ market instruments.
- a) Capital
  - b) Money
  - c) Federal
  - d) Benchmark
17. If bad credit risks are the ones who most actively seek loans and, therefore, receive them from financial intermediaries, then financial intermediaries face the problem of
- a) Moral hazard.
  - b) Adverse selection.
  - c) Free-riding.
  - d) Costly state verification.
18. An example of the problem of \_\_\_\_\_ is when a corporation uses the funds raised from selling bonds to fund corporate expansion to pay for Caribbean cruises for all of its employees and their families.
- a) Adverse selection
  - b) Moral hazard
  - c) Risk sharing
  - d) Credit risk
19. Financial intermediaries have developed expertise in monitoring the parties they lend to, thus reducing losses due to
- a) Moral hazard.
  - b) Adverse selection.
  - c) Free-riding.
  - d) Economies of scope.
20. What is the present value of \$500.00 to be paid in two years if the interest rate is 5 percent?
- a) \$453.51
  - b) \$500.00
  - c) \$476.25
  - d) \$550.00

21. To claim that a lottery winner who is to receive \$1 million per year for twenty years has won \$20 million ignores the process of
- Face value.
  - Par value.
  - Deflation.
  - Discounting the future.
22. If a \$5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is
- \$650.
  - \$1,300.
  - \$130.
  - \$13.
23. A \$1,000 face value coupon bond with a \$60 coupon payment every year has a coupon rate of
- 0.6 percent.
  - 5 percent.
  - 6 percent.
  - 10 percent.
24. If the amount payable in two years is \$2,420 for a simple loan at 10 percent interest, the loan amount is
- \$1,000.
  - \$1,210.
  - \$2,000.
  - \$2,200.
25. The present value of a fixed-payment loan is calculated as the \_\_\_\_\_ of the present value of all cash flow payments.
- Sum
  - Difference
  - Multiple
  - Log

## QUESTION 2

[25 Marks]

- Name and discuss the four main sources of funds for banks? (10)
- What are the benefits and costs for a bank when it decides to increase its bank capital. (5)
- Assume a required reserve ratio of 0.10 to answer the questions that follow.

Assets in Millions N\$		Liabilities & Net Worth (in millions N\$)	
Reserves	150	Deposits	500
Loans	250	Bank Capital	25
Bonds	125		
Total	525	Total	525

- Calculate the initial required reserves for this bank. (3)
- Calculate the initial excess reserves for this bank. (3)
- Convert all of the excess reserves into loans. Construct the new balance sheet. (4)

**QUESTION 3 [25 Marks]**

- Money market is described to be a liquid market as compared to Capital Market. Briefly explain the 4 money market instruments you learned. (8)
- Do bondholders fare better when the yield to maturity increases or when it decreases? Why? (7)
- How can financial innovation lead to financial crises? (10)

**QUESTION 4 [25 Marks]**

- List the three motives for holding money according to the Keynesian liquidity preference theory. (3)
- Discuss fully the principles of bank management. Use practical examples and also discuss the possible problems and/or costs that a bank may experience if it violates any of these principles. (22)

**TOTAL = 100 MARKS**