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: JULY 2022	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr Eslon Ngeendepi Mr Makaisapi Tjiumbirua
MODERATOR:	Mr Eden Shipanga

INSTRUCTIONS
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.

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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
a) Face value.
b) Par value.
c) Deflation.
d) Discounting the future.

22. If a $5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is
a) $650.
b) $1,300.
c) $130.
d) $13.

23. A $1,000 face value coupon bond with a $60 coupon payment every year has a coupon rate of
a) 0.6 percent.
b) 5 percent.
c) 6 percent.
d) 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
a) $1,000.
b) $1,210.
c) $2,000.
d) $2,200.

25. The present value of a fixed-payment loan is calculated as the _____ of the present value of all cash flow payments.
a) Sum
b) Difference
c) Multiple
d) Log

QUESTION 2 [25 Marks]

1. Name and discuss the four main sources of funds for banks? (10)

2. What are the benefits and costs for a bank when it decides to increase its bank capital. (5)

3. 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

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

QUESTION 3 [25 Marks]

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

QUESTION 4 [25 Marks]

1. List the three motives for holding money according to the Keynesian liquidity preference theory. (3)
2. 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