NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: O7BECO	**LEVEL: 7**
COURSE CODE: MAB611S	**COURSE NAME:** MONEY AND BANKING
SESSION: JUNE 2024	**PAPER:** THEORY
DURATION: 3 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	**Ms Kasnath Kavezeri**
MODERATOR:	**Mr Mally Likukela**

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. **You just bought a new car. In this transaction, you used money as a**
   (a) Form of credit.
   (b) Source of income.
   (c) Means of payment.
   (d) Standard of value.
2. **The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of the amount per year) is commonly referred to as the**
   (a) Inflation rate.
   (b) Exchange rate.
   (c) Interest rate.
   (d) Aggregate price level.
3. **The M1 definition of money includes**
   (a) Currency outside banks plus checkable deposits and Eurodollars.
   (b) Currency outside banks plus checkable deposits plus retail money market deposit accounts.
   (c) Currency outside banks plus checkable deposits plus traveler's checks.
   (d) Currency outside banks plus checkable deposits plus small-denomination time deposits.
4. **An asset that can be quickly turned into the medium of exchange without taking a loss is said to be very**
   (a) Accountable.
   (b) Liquid.
   (c) Divisible.
   (d) Profitable
5. **Which of the following is the least liquid?**
   (a) A checking account
   (b) A government bond
   (c) A traveler's check
   (d) A money market deposit account
6. **A financial crisis is**
   (a) Not possible in the modern financial environment.
   (b) A major disruption in the financial markets.
   (c) A feature of developing economies only.
   (d) Typically followed by an economic boom

7. **Banks are important to the study of money and the economy because they**
   (a) Channel funds from investors to savers.
   (b) Have been a source of rapid financial innovation.
   (c) Are the only important financial institution in the economy.
   (d) Create inflation.

8. **The management of money and interest rates is called ________ policy and is conducted by a nation's ________ bank.**
   (a) Monetary; superior
   (b) Fiscal; superior
   (c) Fiscal; central
   (d) Monetary; central

9. **If the maturity of a debt instrument is less than one year, the debt is called**
   (a) Short-term.
   (b) Intermediate-term.
   (c) Long-term.
   (d) Prima-term.

10. **Which of the following statements about the characteristics of debt and equity is FALSE?**
   (a) They can both be long-term financial instruments.
   (b) They can both be short-term financial instruments.
   (c) They both involve a claim on the issuer's income.
   (d) They both enable a corporation to raise funds.

11. **Equity holders are a corporation's ________. That means the corporation must pay all of its debt holders before it pays its equity holders.**
   (a) Debtors
   (b) Brokers
   (c) Residual claimants
   (d) Underwriters

12. **Which of the following benefits directly from any increase in the corporation's profitability?**
   (a) A bond holder
   (b) A commercial paper holder
   (c) A shareholder
   (d) A treasury bill holder

13. **A financial market in which previously issued securities can be resold is called a ________ market.**
   (a) Primary
   (b) Secondary
   (c) Tertiary
   (d) Used securities

14. Which of the following is not a financial institution?

(a) A mutual fund
(b) An insurance company
(c) A pension fund
(d) A mining company

15. Equity instruments are traded in the ________ market.

(a) Money
(b) Bond
(c) Capital
(d) Commodities

16. Because these securities are more liquid and generally have smaller price fluctuations, corporations and banks use the ________ securities to earn interest on temporary surplus funds.

(a) Money market
(b) Capital market
(c) Bond market
(d) Stock market

17. Collateral is ________ the lender receives if the borrower does not pay back the loan.

(a) A liability
(b) An asset
(c) A present
(d) An offering

18. Bonds that are sold in a foreign country and are denominated in a currency other than that of the country in which it is sold are known as

(a) Foreign bonds.
(b) Eurobonds.
(c) Equity bonds.
(d) Country bonds.

19. The concept of diversification is captured by the statement

(a) Don't look a gift horse in the mouth.
(b) Don't put all your eggs in one basket.
(c) It never rains, but it pours.
(d) Make hay while the sun shines.

20. The problem created by asymmetric information before the transaction occurs is called ________, while the problem created after the transaction occurs is called ________.

(a) Adverse selection; moral hazard
(b) Moral hazard; adverse selection
(c) Costly state verification; free-riding
(d) Free-riding; costly state verification

21. Adverse selection is a problem associated with equity and debt contracts arising from

(a) The lender's relative lack of information about the borrower's potential returns and risks of his investment activities.

(b) The lender's inability to legally require sufficient collateral to cover a 100% loss if the borrower defaults.

(c) The borrower's lack of incentive to seek a loan for highly risky investments.

(d) The borrower's lack of good options for obtaining funds.

22. Financial intermediaries are better equipped than individuals to screen out bad credit risks from good ones, thus reducing losses due to

(a) Adverse selection.

(b) Moral hazard.

(c) Free-riding.

(d) Economies of scope.

23. For a commercial bank, a new loan is

(a) A reserve.

(b) Capital.

(c) A liability.

(d) An asset.

24. ________ is used to make purchases while ________ is the total collection of pieces of property that serve to store value.

(a) Money; income

(b) Wealth; income

(c) Income; money

(d) Money; wealth

25. A bank's excess reserves are equal to

(a) Total reserves minus required reserves.

(b) Demand deposits minus loans.

(c) Cash plus deposits at the central bank.

(d) Net worth.

QUESTION 2 **[25 Marks]**

1. Calculate the yearly coupon payment for a N$5,000 coupon bond with a coupon rate of 13%. (3)
2. What do we call a credit market instrument that provides the borrower with an amount of funds that must be repaid at the maturity date along with an interest payment? (1)
3. What is the return on a 5% coupon bond that initially sells for N$1,000 and sells for N$900 next year? (3)
4. Calculate the amount to be repaid for a 3-year simple loan of N$10,000 at 10 percent. (3)
5. If a N$10,000 face-value discount bond maturing in one year is selling for N$8,000, then what is its yield to maturity? (3)
6. Briefly discuss and illustrate with a diagram how the bond market would respond to an increase in the expected rate of inflation. (12)

QUESTION 3 **[25 Marks]**

1. Name two entities through which the government regulates the Namibian financial sector. (2)
2. Differentiate between direct and indirect finance (4)
3. Name three examples of financial intermediaries that operate in Namibia. (3)
4. Is everybody in the economy worse off when interest rates rise? Explain. (3)
5. List five criteria that a commodity should possess to be used as money. (5)
6. If a bank experiences high deposit outflows to the extent that all its reserves are completely wiped out, what action should the managers of the bank take to raise the necessary reserves? Also state the cost of each action. (8)

QUESTION 4 **[25 Marks]**

1. Name the three stakeholders in the money supply process. (3)
2. Briefly discuss three goals a bank pursues in managing its assets. (6)
3. What three motives for holding money did Keynes consider in his liquidity preference theory of the demand for real money balances? On the basis of these motives, what variables did he think determined the demand for money? (5)
4. Do bondholders fare better when the yield to maturity increases or when it decreases? Why? (5)
5. Discuss the factors that determine money demand under the portfolio theory. (6)

TOTAL = 100 MARKS