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: O7BEC0	LEVEL: 7
COURSE CODE: MAB611S	COURSE NAME: MONEY AND BANKING
SESSION: JUNE 2023	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

FIRST OPPORTUNITY EXAMINATION QUESTION PAPER	
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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 10 PAGES (Including this front page)

**QUESTION 1**   **[20 Marks]**

Select the letter that best represents your choice.

    1.1   **Financial markets promote greater economic efficiency by channeling funds from _____ to _____.**
- a) investors; savers
- b) borrowers; savers
- c) savers; borrowers
- d) savers; lenders

    1.2   **When we say that income is a flow variable, we mean that:**
- a) we must attach a time period to the measure for it to make sense.
- b) it is measured at a given point in time.
- c) it moves through our hands quickly.
- d) the value is constantly changing.

    1.3   **A share of common stock is a claim on a corporation's:**
- a) debt.
- b) liabilities.
- c) expenses.
- d) earnings and assets.

    1.4   **A continuing increase in the growth of the money supply is likely followed by:**
- a) a recession.
- b) a depression.
- c) an increase in the price level.
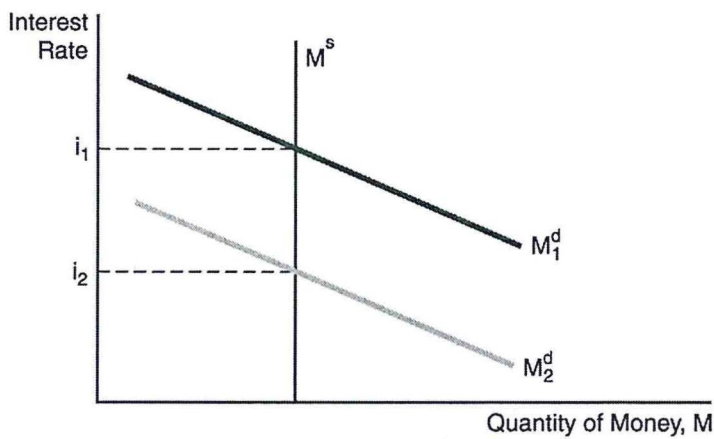- d) no change in the economy.

Figure 1: Supply and demand for bonds equilibrium
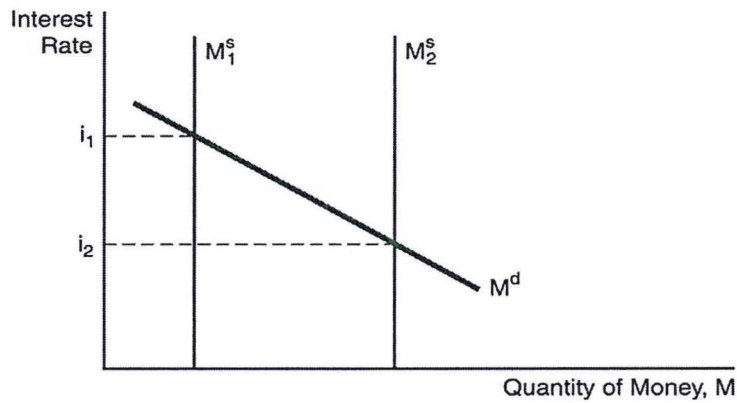
1.5 In the figure above, the factor responsible for the decline in the interest rate is:
a) a decline the price level.
b) a decline in income.
c) an increase in the money supply.
d) a decline in the expected inflation rate.

Figure 2: Demand and supply of bonds

1.6 the figure above, one factor NOT responsible for the decline in the demand for money is:
a) a decline the price level.
b) a decline in income.
c) an increase in income.
d) a decline in the expected inflation rate.

3

1.7 What is the annual interest payment on a N$1 million bond with a coupon rate of 8 per cent and a yield-to-maturity (YTM) of 10 per cent?
a) N$40 000
b) N$50 000
c) N$80 000
d) N$100 000

1.8 What is the primary distinguishing factor between the money market and the bond market?
a) Minimum investment amount
b) Source of income from instruments
c) Method of trading
d) Maturity of instruments

1.9 Which of the following markets are considered to be over-the-counter markets in Namibia?
  i. The Money market
  ii. The foreign exchange market
  iii. The equity market
  iv. The bond market

a) (i) and (ii) only
b) (iii) and (iv) only
c) (ii) and (iii) only
d) (i), (iii) and (iv) only

1.10 Which ONE of the following statements with regard to the financial markets is correct?

a) The equity market is also referred to as the fixed-income market.
b) The share market and the money market together form the capital market.
c) The retail foreign exchange market is as large as the wholesale foreign exchange market.
d) The bond market is the market for marketable long-term debt instruments.

1.11 Which ONE of the following rates is the reference rate for all other rates in the Namibian financial system?
a) Prime lending rate
b) Call deposit rate
c) Interbank loan rate
d) Central bank repo rate

1.12 Which of the following statements with regard to the financial system are correct? The financial system:

    i.   channels savings into investment through time and across industries

    ii.   assist investment decisions by providing information to the public

    iii.   allows households to participate in investments that require large sums of money

    iv.   ensures that funds are allocated to borrowers that will utilize the funds prudently

    a)   (ii) and (iv) only

    b)   (i), (ii) and (iii) only

    c)   (i), (iii) and (iv) only

    d)   (i), (ii), (iii) and (iv)

1.13 What is the <u>main reason</u> for the SARB's operations in the financial markets?

    a) Diversification of the government asset portfolio

    b) Investment of short-term deposits for the public sector

    c) Implementation of the interest rate policy

    d) Management of the official foreign exchange reserves

1.14 Which of the following actions are likely to cause a decline in demand deposits held with banks?

    i.   the central bank raise the statutory reserve requirement.

    ii.   the central bank sells securities via open-market operations.

    iii.   the central bank lowers the statutory reserve requirement.

    iv.   the central bank buys securities via open-market-operations.

    a)   (i) and (ii) only

    b)   (iii) and (iv) only

    c)   (i), (ii) and (iii) only

    d)   (i), (iii) and (iv) only

1.15 Bankers' concerns regarding the optimal mix of excess reserves, secondary reserves, borrowings from the central bank, and borrowings from other banks to deal with deposit outflows is an example of

    a) liability management.

    b) liquidity management.

    c) managing interest rate risk.

    d) managing credit risk.

1.16 **A bank failure occurs whenever**
   a) a bank cannot satisfy its obligations to pay its depositors and other creditors.
   b) a bank suffers a large deposit outflow.
   c) a bank has to call in a large volume of loans.
   d) a bank refuses to make new loans.

1.17 **The M2 money supply is represented by**
   a) $M2 = \dfrac{1 + c + t + mm}{rr + e + c} \times MB.$

   b) $M2 = \dfrac{1 + c + t + mm}{rr + e + c} \times \dfrac{1}{MB}.$

   c) $MB = \dfrac{1 + c + t + mm}{rr + e + c} \times M2.$

   d) $MB = \dfrac{rr + e + c}{1 + c + t + mm} \times \dfrac{1}{M2}.$

1.18 **The three players in the money supply process include:**
   a) banks, depositors, and the Ministry of Finance.
   b) banks, depositors, and borrowers.
   c) banks, depositors, and the central bank.
   d) banks, borrowers, and the central bank.

1.19 **The quantity of reserves supplied equals**
   a) nonborrowed reserves minus borrowed reserves.
   b) nonborrowed reserves plus borrowed reserves.
   c) required reserves plus borrowed reserves.
   d) total reserves minus required reserves.

1.20 **A nominal variable, such as the inflation rate or the money supply, which ties down the price level to achieve price stability is called _____ anchor.**
   a) a nominal
   b) a real
   c) an operating
   d) an intermediate

QUESTION 1

a) Name the four broad sectors of the economy that participate as both ultimate borrowers and ultimate lenders within the financial system. (2)

b) Why do financial intermediaries exist within the financial system? (2)

c) Differentiate between the primary and the secondary bond market. (2)

QUESTION 2

a) Assume you just deposited N$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? (3)

b) What is the yield to maturity on a N$10,000-face-value discount bond, maturing in one year, which sells for N$9,523.81? (3)

c) What is the price of a perpetuity that has a coupon of N$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? (3)

QUESTION 1

a) Based on readings from Sheefeni (2017), what the four monetary transmission mechanism channels in Namibia? (4)

b) Bonds are debt instruments through which finance for infrastructure development can be raised. African governments and businesses can select from different types of bonds to find the best vehicle for raising capital (Oji, 2015).

    i.   According to Oji (2015), list six major bonds traded by African governments. (7)

c) Based on the 2022 Namibian financial stability report identify two main banking sector risk. (2)

d) What is the main purpose of the Namibian financial stability report? (2)

QUESTION 1

a) Rank the following bank assets from most to least liquid: (4)

    i.   Commercial loans

    ii.   Securities

    iii.   Reserves

    iv.   Physical capital

b) If a bank is falling short of meeting its capital requirements by N$1 million, what three things can it do to rectify the situation? (3)

c) Absa Bank reported an ROE of 17% and an ROA of 2.32%. What is the equity multiplier? How well capitalized is this bank? (4)

d) What steps can the government take to reduce asymmetric information problems and help the financial system function more smoothly and efficiently? (4)

QUESTION 2

a) What are the disadvantages of using loans to financial institutions to prevent bank panics? (6)

b) List two advantages and disadvantages of quantitative easing as an alternative to conventional monetary policy. (4)

c) William does not feel comfortable with the current level of the European Central Bank's independence. Put yourself in William's shoes and state arguments used against independence of Central Bank's. (5)

SECTION E

20 Marks

QUESTION 1

i. What does the Taylor rule imply that policymakers should do to the fed funds rate under the following scenarios?

a) Unemployment rises due to a recession. (1)

b) An oil price shock causes the inflation rate to rise by 1% and output to fall by 1%. (1)

c) The economy experiences prolonged increases in productivity growth while actual output growth is unchanged. (1)

d) Potential output declines while actual output remains unchanged. (1)

e) The Fed revises its (implicit) inflation target downward. (1)

f) The equilibrium real fed funds rate decreases. (1)

ii. Why would it be problematic for a central bank to have a primary goal of maximizing economic growth? (3)

iii. What are the benefits of using a nominal anchor for the conduct of monetary policy? (3)

iv.   Classify each of the following as either a policy instrument or an intermediary target. Explain your answer.

a) Long-term interest rates.   (2)

b) Central bank interest rates.   (2)

c) M2   (2)

d) Reserve requirements   (2)

TOTAL = 100 MARKS