

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING

MONEY AND BANKING

CBA 2102

FINAL EXAMINATION

DECEMBER 2004

INSTRUCTIONS TO CANDIDATES

- (i) Time : 3 hours.
- (ii) Answer **FIVE** questions only
- (iii) Each question carries 25 marks

QUESTION 1

- (a) Why is a cheque not regarded as a legal tender? [4]
 - (b) What is credit creation and what factors undermine the credit creation process by commercial banks. [5]
 - (c) Compare and contrast the Mechanistic model of money supply determination with the Behavioural Model. How relevant are these theories in explaining the Zimbabwean situation. [16]
- TOTAL [25]**

QUESTION 2

- (a) The clearing system can be equalled to a country's basic utilities..... which need to be technically robust in order to support the economy? Discuss. [10]
 - (b) Given that:
 - Bank D owes C, B and A \$30m; \$45m and \$15m respectively.
 - Bank C is owed \$25m; \$40m and \$30m by banks A, B and D respectively.
 - Bank B owes Bank A, C and D \$30m, \$40m and \$20m respectively.
 - Bank A is owed \$30m, \$45m, \$15m by Bank B, C and D respectively.
 - (i) Draw, in tabular form, a clearing house transaction table showing net credits and net debits, as well as the clearing house account. [15]
- TOTAL [25]**

QUESTION 3

Discuss clearly the applicability of the Liquidity Preference and the Pure Expectations Theories in explaining the interest rate structure in Zimbabwe. Support your arguments with recent and relevant examples. [25]

QUESTION 4

Microfinance institutions are better placed than formal banks to intermediate for SMEs and the poor in Zimbabwe. Discuss. [25]

QUESTION 5

- (a) “The Reserve Bank should help failing banks so that investors are protected”. Discuss. [6]
- (b) Why does the Central Bank lay emphasis on the need for banks to maintain minimum capital adequacy levels? Discuss this in the context of Zimbabwe. [6]
- (c) Why is bank liquidity so important in regulating bank failures? Discuss briefly the three common methods used to measure bank liquidity in any financial institution in Zimbabwe. [13]

TOTAL [25]

QUESTION 6

Write short notes on the following terms. [2.5 marks each]

- (a) The Pigouvian effect
- (b) Commercial paper
- (c) Weak form efficiency
- (d) Corporate governance
- (e) Money laundering
- (f) Bill of Exchange
- (g) Invoice discounting
- (h) Primary market
- (i) Forward market
- (j) Direct and indirect exchange rate quotations.

[25]

QUESTION 7

From the point of view of the “simple model of money supply determination”, explain how the curb or parallel foreign exchange market may cause financial crisis and jeopardise the effectiveness of monetary policy. What measure would you recommend for the eradication of such a curb market in a country like Zimbabwe. [25]

QUESTION 8

Discuss the **five** factors of financial markets as well as the **ten** characteristics of financial assets. How well do these explain what is happening in the Zimbabwean financial markets.

TOTAL [25]

END OF EXAMINATION PAPER