

**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

APRIL 2009

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- The paper contains **SIX (6)** questions.
- Answer any **four (4)** questions.
- All questions carry equal marks [**25 marks**].
- Start the answer to each question on a fresh page of the answer sheet.
- Indicate on your answer booklet whether you are in the conventional or parallel programme

INFORMATION FOR CANDIDATES

Questions may be written in any order, but must be legibly numbered.

The businesses in this question paper are intended to be fictitious.

This paper consists of 3 printed pages
Copyright: National University of Science and Technology, 2009

[Turn over]

QUESTION ONE

- a) (i) What are the main functions of money in an economy? [5 marks]
(ii) Describe five characteristics of money which enable it to efficiently perform its Functions. [5 marks]
- (b) From (ii) discuss under appropriate headings showing the instances where the local currency falls short. [15 marks]

QUESTION TWO

- a) Describe the functions performed by the Central Bank. [5 marks]
b) Define the discount window and discount rate. [5 marks]
c) What actions can be taken by the Central Bank to promote economic expansion? Describe how each affects credit availability, interest rates, money supply and security prices. [15 marks]

QUESTION THREE

- (a) What is meant by the term depository institution? [3 marks]
(b) What are the major sources of funds for commercial banks in Zimbabwe? [5 marks]
(c) How has the performance of the commercial banking industry changed in the last decade? [17 marks]

QUESTION FOUR

- (a) What is the duration of a two-year zero coupon bond that pays an annual coupon of 10 percent and has a current yield to maturity of 12 percent? Use \$1000, as the face value. [7 marks]
(b) What is the duration of a two-year bond with 10 percent coupon paid semiannually and 8 percent yield? Use \$1000, as the face value. [15 marks]
(c) Given these answers, how does duration differ from maturity? [3 marks]

QUESTION FIVE

- (a) What are the 10 characteristics common to financial securities? [10 marks]
(b) What services do financial intermediaries provide to the financial system? [10 marks]
(c) Why are financial intermediaries regulated? [5 marks]

QUESTION SIX

Write brief notes on the following;

- (i)
 - (a) Best Efforts [3 marks]
 - (b) Floor brokers [3 marks]
 - (c) Odd-lot dealers [3 marks]
 - (d) Primary markets [5 marks]
 - (e) Over-the-counter markets [5 marks]

- (ii) How does the liquidity premium theory of term structure of interest rates differ from the unbiased expectations theory? [6 marks]