NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BANKING
BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING

BANKING AND DEVELOPMENT I
CBA 4101

FINAL EXAMINATION **FEBRUARY 2010**

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- The paper contains **SIX (6)** questions.
- Answer questions **ONE** and any other **THREE.**
- 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 4 printed pages

Turn over]

QUESTION ONE (COMPULSORY)

Case study: Grameen bank

The Grameen model emerged from the poor-focussed grassroots institution, Grameen Bank, started by Prof. Mohammed Yunus in Bangladesh. It essentially adopts the following methodology:
A bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarise themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group serves as collateral on the loan.

a) With reference to the above case study highlight how the following issues are addressed:
   i. Information asymmetry **[4 marks]**
   ii. Moral hazard **[4 marks]**
   iii. Contract enforcement **[4 marks]**
   iv. Loan delinquency **[4 marks]**

b) Can the Grameen bank model be replicated in Zimbabwe? **[9 marks]**

TOTAL [25 MARKS]

QUESTION TWO

A lot of theories have been put forward on the issue of identifying the nexus between financial development and economic growth. These theories try to answer the questions like: does financial development spur economic growth? Critically analyse the Harrod-Domar growth model in line with this statement and identify the weaknesses of this model. **[25 marks]**

TOTAL [25 MARKS]

QUESTION THREE

Explain how, in equilibrium a credit market may be characterized by loan rationing? **[25 marks]**

TOTAL **[25 MARKS]**

QUESTION FOUR

How successful has financial liberalization been to Zimbabwe? **[25 marks]**

TOTAL **[25 MARKS]**

QUESTION FIVE

The practical importance of fungibility depends on whether the recipient and donor have the same objectives. If the donor has different preferences and really wants the aid to be spent on a particular project, then fungibility is a problem. Critically evaluate this statement and highlight the importance of fungibility to:

a) Donor funding **[10 marks]**
b) Financial intermediaries **[10 marks]**
c) Stock markets **[5 marks]**

TOTAL **[25 MARKS]**

QUESTION SIX

a) What factors can explain the high cost of small business finance? **[13 marks]**
b) How can SMEs be financed viably in Zimbabwe? **[12 marks]**

TOTAL **[25 MARKS]**