HEBERT CHITEPO SCHOOL OF LAW AND BUSINEESS SCIENCES

DEPARTMENT OF ECONOMICS AND FINANCE

MAIN EXAMINATION

BACHELOR OF COMMERCE **PART 2 SEMESTER 1**

COURSE **MONEY AND BANKING**

CODE **HBF217**

DATE

GREAT ZIMBABWE UNIVERSITY
RECEIVED
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EXAMINATIONS OFFICE

INSTRUCTIONS TO CANDIDATES

1. THE PAPER COMPRISES 5 QUESTIONS. TWO COMPULSORY QUESTIONS IN SECTION A AND THREE QUESTIONS IN SECTION B
2. YOU ARE REQUIRED TO ANSWER ALL TWO (2) QUESTIONS IN SECTION A AND ANY TWO (2) QUESTIONS IN SECTION B.
3. BEGIN THE ANSWER TO EACH QUESTION ON A FRESH PAGE.
4. NON-PROGRAMMABLE SCIENTIFIC CALCULATORS ARE ALLOWED INTO THE EXAMINATION.

SECTION A (COMPULSORY) ANSWER ALL QUESTIONS

QUESTION 1(COMPULSORY)

1.1. Write notes on each of the following financial instruments:

1.1.1 Negotiable Certificate of deposit (NCD) **(3 Marks)**

1.1.2 Treasury bill (TB) **(3 Marks)**

1.1.3 Bankers' Acceptance (BA) **(3 Marks)**

1.1.4 Government Bond **(3 Marks)**

1.2. Assuming that the required reserve ratio is 8%, the desired excess reserve ratio is 10% and the desired currency to deposit ratio is 13% and the Reserve bank of Zimbabwe has purchased Fifteen million United States dollars (US$15 000 000.00) from the local market to pay for a Platinum Refinery from China.

Calculate the change in;

1.2.1 Deposits **(2 Marks)**

1.2.2 Currency holdings **(2 Marks)**

1.2.3 Money stock **(2 Marks)**

1.3 Suppose that the Central Bank has carried out an Open Market Operation (OMO) to the tune of ten million dollars ($10 000 000.00) and Mr Huni bought all these securities that were offered by the Central Bank using the internet banking platform. Given that the required reserve ratio is 7%, the desired excess reserve ratio is 3% and the desired currency to deposit ratio is 10%.

Determine the change in;

1.3.1 Deposits **(2 Marks)**

1.3.2 Currency holdings **(2 Marks)**

1.3.3 Money stock. **(3 Marks)**

TOTAL {25 MARKS}

QUESTION 2 (COMPULSORY)

2.1 If you put $7 000.00 (Seven thousand dollars) every year into a bank account at 5% interest per annum and the interest is paid to your account at the end of every year. How much would you have saved after 5 years? Show your workings.

(6 Marks)

2.2 What is the present value of $500 000.00 (Five hundred thousand dollars) received in 2½ years at an interest rate of 8% per annum? **(2 Marks)**

2.3 Given a choice of 2 investments, would you choose one that pays a total return of 23% per annum over 4½ years or one that pays 0.6% per month for 5 years? Show your workings. **(5 Marks)**

2.4 How can the existence of asymmetric information provide a rationale for government regulation of financial markets? **(12 Marks)**

[Total 25 Marks]

SECTION B (ANSWER ANY 2 (TWO) OF THE THREE QUESTIONS

QUESTION 3

3.1 Explain the role of clearing houses in the clearing process and how they facilitate transactions between financial institutions **(12 marks)**

3.2 How has the rise in mobile banking applications transformed customer interactions with financial institutions? **(13 marks)**

TOTAL (25 MARKS)

QUESTION 4

4.1 What are key steps involved in the credit creation process within a fractional reserve banking system, and how do they contribute to the expansion of money supply **15 marks**

4.2 Evaluate the role of the central banks in regulating and supervising commercial banks.

10 marks

TOTAL (15 MARKS)

QUESTION 5

5.1 How has financial innovation influenced the evolution of banking services over the past decade? **8 marks**

5.2 How do international interest rate differentials affect exchange rates and international capital flows? Explain with reference to the theory of interest rate parity

17 marks

TOTAL (25 MARKS)

END OF THE EXAMINATION