



“Investing in Africa’s future”

COLLEGE OF BUSINESS PEACE LEADERSHIP GOVERNANCE (CBPLG)

MEC205: MONEY AND BANKING

END OF SECOND SEMESTER FINAL EXAMINATIONS

JAN/MAY 2019

LECTURER: MR. GABRIEL MUZAH

DURATION: 3 HRS

INSTRUCTIONS

The Paper contains two sections. (Section A and Section B)

Answer **all** questions in these sections

DO NOT repeat material.

Write legibly. Write your answer clearly. Use numbered headings or subheadings to show which part of your answer refers to which question. Example: Question 2 (a)

Section A (True/ False)

1. Economists define money as currency in circulation plus reserves. (T/F)
2. Present value calculations allow us to compare assets with differing time dimensions. (T/F)
3. Dr. Mangudya heads the Reserve Bank of Zimbabwe. (T/F)
4. An individual provides three light bulbs to her neighbor in exchange for two gallons of milk is a barter transaction (T/F)
5. The adverse selection problem in financial markets creates a profit opportunity because it opens a gap between the cost of short-term funds and the cost of long-term funds. (T/F)
6. Financial intermediaries exist because there are substantial information and transactions costs in the economy. (T/F)
7. A debt instrument is short term if its maturity is less than one year. (T/F)
8. A bond is a debt security that promises to make payments for a specified period of time. (T/F)
9. Adverse selection is a problem associated with equity and debt contracts arising from the lender's inability to legally require sufficient collateral to cover a loss if the borrower defaults. (T/F)
10. The conversion of a barter economy to one that uses money increases efficiency by increasing the cost of exchange. (T/F)
11. The price of a coupon bond and the yield to maturity are positively related. (T/F)
12. The monetary policy statement is announced by the Minister of Finance. (T/F)
13. An interest rate is the cost of borrowing or the price paid for the rental of funds. (T/F)
14. A Eurobond is a bond denominated in a currency other than that of the country in which it is sold. (T/F)
15. The aggregate price level is the average price of goods and services in an economy. (T/F)

[Total 25 Marks]

Section B Essay Type Questions

Question 1

- a) With the aid of a diagram showing the flow of funds through the financial system can you compare and contrast direct and indirect finance? **[10 Marks]**

- b) Discuss in detail how financial intermediaries deal with the information asymmetry problem? **[10 Marks]**
- c) How does regulation increase information to investors? **[5 Marks]**

[Total 25 Marks]

Question 2

The monetary policy statement presented on 20 February 2019 had policies aimed at establishing a trading mechanism of RTGS balances and bond notes with international currencies through establishing an inter-bank foreign exchange market to restore domestic competitiveness and promote growth. Can you discuss in detail the eight (8) new policy measures proposed by this statement? **[25 Marks]**

Question 3

- a) What is a cryptocurrency and how did it emerge as a side product of digital cash? **[5 Marks]**
- b) With reference to a specific cryptocurrency can you discuss its revolutionary transactional and monetary properties? **[20 Marks]**

[Total 25 Marks]

END OF EXAM