

UGANDA MARTYRS UNIVERSITY
NKOZI

UNIVERSITY EXAMINATIONS
SUPPLEMENTARY/SPECIAL EXAMINATIONS
FACULTY OF SCIENCE
DEPARTMENT OF ECONOMICS

Money, Banking & Public Finance

DATE: 6th August 2015

TIME: 10:00 – 1:00 Pm

DURATION: 3 Hrs

Instructions:

1. The exam is made up of seven structured questions: Q1 to Q7, each carrying the same marks.
2. Attempt **any four** questions.
3. The University Examination rules apply throughout the exam period.

Figures in brackets indicate the marks awarded for right answer with all workings shown

Q.1(a) Explain the Central Bank's three tools of monetary policy and how each is used to change the money supply. Highlight how each tool affects the monetary base and/or the money multiplier? (15 marks)

(b) Explain the roles of the central bank to the economic growth and development of Uganda. (10 marks)

Q.2(a) Explain five core principles of money and banking (10marks)

(b) Explain the roles of financial intermediaries in your country (15 marks)

Q.3 (a) Explain the different views put forward by economists to define supply of money (15 marks)

(b) Explain the determinants of money supply in an economy (10 marks)

Q.4 (a) Explain any three (3) exchange rate regimes used in various economies (15marks)

(b) Examine the advantages of the floating exchange rate regime (10 marks)

Q.5(a) Because there is an imbalance of information in a lending situation, we must deal with the problems of adverse selection and moral hazard. Define these terms and explain how financial intermediaries can reduce these problems. (15marks)

(b) Two major risks that banks face on a daily basis is liquidity risk and credit risk. Define these two risks and highlight mitigants banks use to manage the two risks. (10marks)

Q.6(a) Explain the Keynesian theory of money demand clearly highlighting the motives that determine money demand? (20marks)

(b) What are the two reasons why Keynes thought velocity could not be treated as a constant? (5marks)

Q.7(a) Write brief notes explaining what you understand by the following; (10marks)

- i. Unit of Account (2marks)
- ii. Liquidity (3 marks)
- iii. Financial Instrument (4 marks)
- iv. Velocity of Money (4 marks)
- v. Open market sale and open market purchase (4 marks)

(b) BAE Bank which has total capital of Shs.1000m and Total assets of 3000m has reported the following results at the end of a period:

Item (measured in millions of Shs.)	Value
1. Interest Income earned from loans and government securities	100
2. Interest Expenses paid on deposits	40
3. Fees and charges earned from bank operations	15
4. Staff costs	10
5. Utilities bills	10
6. Tax	5

Calculate the followings profitability measures and clearly state the implication of each ratio in reference to the performance of BAE Bank: (8marks)

- a) Net interest Income
- b) Net Interest Margin
- c) Return on Assets
- d) Return on Equity

End