INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: BBA
YEAR/SEM: YEAR 2/SEMESTER 2
COURSE CODE: FIN 2201
NAME: MONEY AND BANKING PRACTICE

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

SECTION A IS COMPULSORY

Question 1:

A financial crisis may have multiple causes. Generally, a crisis can occur if institutions or assets are overvalued, and can be exacerbated by irrational or herd-like investor behavior. For example, a rapid string of selloffs can result in lower asset prices, prompting individuals to dump assets or make huge savings withdrawals when a bank failure is rumored. Contributing factors to a financial crisis include systemic failures, unanticipated or uncontrollable human behavior, incentives to take too much risk, regulatory absence or failures, or contagions that amount to a virus-like spread of problems from one institution or country to the next. If left unchecked, a crisis can cause an economy to go into a recession or depression. Even when measures are taken to avert a financial crisis, they can still happen, accelerate, or deepen. Financial crises are not uncommon; they have happened for as long as the world has had currency. Some well-known financial crises include:Tulip Mania Though some historians argue that this mania did not have so much impact on the Dutch economy, and therefore shouldn't be considered a financial crisis, it did coincide with an outbreak of bubonic plague which had a significant impact on the country. With this in mind, it is difficult to tell if the crisis was precipitated by over-speculation or by the pandemic.Credit Crisis of 1772. After a period of rapidly expanding credit, this crisis started in March/April in London. Alexander Fordyce, a partner in a large bank, lost a huge sum shorting shares of the East India Company and fled to

France to avoid repayment. Panic led to a run on English banks that left more than 20 large banking houses either bankrupt or stopping payments to depositors and creditors. The crisis quickly spread to much of Europe. Historians draw a line from this crisis to the cause of the Boston Tea Party—unpopular tax legislation in the 13 colonies—and the resulting unrest that gave birth to the American RevolutionStock Crash of 1929. This crash, starting on Oct. 24, 1929, saw share prices collapse after a period of wild speculation and borrowing to buy shares. It led to the Great Depression, which was felt worldwide for over a dozen years. Its social impact lasted far longer. One trigger of the crash was a drastic oversupply of commodity crops, which led to a steep decline in prices. A wide range of regulations and market-managing tools were introduced as a result of the crash1973 OPEC Oil Crisis. OPEC members started an oil embargo in October 1973 targeting countries that backed Israel in the Yom Kippur War. By the end of the embargo, a barrel of oil stood at $12, up from $3. Given that modern economies depend on oil, the higher prices and uncertainty led to the stock market crash of 1973–74, when a bear market persisted from January 1973 to December 1974 and the Dow Jones Industrial Average lost about 45% of its value. Asian Crisis of 1997–1998. One big upshot of the crisis was the adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act, a massive piece of financial reform legislation passed by the Obama administration in 2010. Dodd-Frank brought wholesale changes to every aspect of the U.S. financial regulatory environment, which touched every regulatory body and every financial services business. Notably, Dodd-Frank had

the following effects: More comprehensive regulation of financial markets, including more oversight of derivatives, which were brought into exchanges. Regulatory agencies, which had been numerous and sometimes redundant, were consolidated. A new body, the Financial Stability Oversight Council, was devised to monitor systemic risk. Greater investor protections were introduced, including a new consumer protection agency (the Consumer Financial Protection Bureau) and standards for "plain-vanilla" products. The introduction of processes and tools (such as cash infusions) is meant to help with the winding down of failed financial institutions. Measures meant to improve standards, accounting, and regulation of credit rating agencies.

Required

Explain the different financial crises that affected the banking sector . (15marks

Discuss the causes of the crisis . (15marks

What are the effects of the crisis on the banking sector? (10marks

Question 2:

Monetary policy is crucial for maintaining economic stability, particularly by controlling inflation, managing the money supply, and influencing interest rates. In Uganda, the Bank of Uganda (BoU) plays a pivotal role in formulating and implementing monetary policy to achieve price stability, support economic growth, and reduce

unemployment. Over the years, the country has faced several challenges such as inflationary pressures, currency depreciation, and external economic shocks. This case study highlights how the BoU's monetary policy has addressed these issues to maintain macroeconomic stability.One of the key challenges Uganda faced in recent years was rising inflation, driven by global commodity price increases and supply chain disruptions. In 2022, Uganda saw inflation reach alarming levels, partially due to rising food and fuel costs exacerbated by the Russia-Ukraine war. In response, the Bank of Uganda raised its central bank rate (CBR) multiple times, from 7% in early 2022 to 9% by the end of the year. This measure aimed to control inflation by reducing the money supply and discouraging excessive borrowing. Simultaneously, the BoU intervened in the foreign exchange market to stabilize the Ugandan shilling, which was depreciating against the US dollar. By using foreign reserves to sell US dollars, the central bank helped reduce the pressure on the currency and mitigate imported inflation. The Bank of Uganda's monetary policy actions helped stabilize inflation by the end of 2022, reducing it from over 6.5% in mid-2022 to around 5.5% by December. However, the increased interest rates led to a slight slowdown in economic growth, as borrowing became more expensive. Despite this, Uganda’s economy showed resilience, with a projected recovery in 2023, supported by a combination of tighter monetary policy and improved confidence in the central bank’s ability to manage economic challenges.

Required

a) Explain the monetary tools used by bank of Uganda to control money in circulation. (20marks)

b) What were the economic consequences of the Bank of Uganda's interest rate hikes on sectors reliant on borrowing, and how does this affect overall economic growth?

(10marks)

c) What were the causes of inflation in 2022 and show the governments reaction to inflation? (10marks

SECTION B

ANWSER ANY THREE QUESTIONS

Question 1:

Endogenous and Exogenous determine money demand in an economy, using examples discuss how these tools determine money supply in an economy.

(20marks)

Question 2:

Discuss with examples the independence of the central bank in your country.

(20marks)

Question 3:

Discuss the tools of monetary policy in your country applied by the country bank.(20marks)

Question 4:

The monetary authority while determining the supply of currency and coins must be guided by the general requirements of the economy. The currency component of the money supply, i.e., coins and notes, is influenced by a number of factors. In light of the above, discuss the Factors Influencing Currency Money in Uganda's economy. (20marks)

Question 5:

Explain using examples the Limitation of Monetary Policy in Low development countries. (20marks)

Question 6:

a)Explain using examples the causes of inflation in your country. (10marks)

b) Discuss the effects of inflation in Uganda's Uganda . **(10Marks)**

Question 7:

Suppose a firm borrows Shs. 10m at 12% interest to be repaid in the -next. *5* years. Equal installments are required at the end of each year and these payments must be sufficient to repay the principal sum together with -the interest.

Required

Draw up a loan amortization schedule to show how the loan would be repaid given the present interest factor of annuity as 3.605 .

(20marks)

Question 8:

(i) Discuss clearly two major factors that determine the scope of monetary policy. (10 marks)

(ii) Discuss the significance of money in the modern economy. (10 marks)

Question 9:

a a) But the barter system is the most inconvenient method of exchange. Itinvolves loss of much time and effort on the part of people in trying toexchange goods and services.in light of the above discuss the disadavanges of barter trade. (10 marks)

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b) b) In its static role, the importance of money lies in removing the difficulties of barter. using examples discuss the functions of money in your country's economy. (10marks)

Question 10:

a)The money in current use world wide has to have certain qualities orproperties to be able to perform the functions. using examples discuss the qualities of money. (10 marks)

b)Discuss the determinates of money demand in your country's economy(10marks)

Question 11:

a) Discuss the functions of financial markets in an economy.

(10Marks)

b)Explain the role played by different participates in financial markets.
(10Marks)

Question 12:

Write short motes on the following: ***(5 marks each)***

(a) Banking and Non-Banking Institutions

(b) Velocity of money

(c) Keynesian theory of money demand

d)Classical theory of money demand