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: 2025-04-14

TIME: 9:00AM-12:00PM

<u>INSTRUCTIONS TO CANDIDATES:</u>

1. Read the instructions very carefully
2. The time allowed for this examination is STRICTLY three hours
3. Read each question carefully before you attempt and allocate your time equally between all the Sections
4. Write clearly and legibly. Illegible handwriting cannot be marked
5. Number the questions you have attempted
6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks
7. Any examination malpractice detected will lead to automatic disqualification.

<u>DO NOT WRITE ANYTHING ON THE QUESTION PAPER</u>

Section A dsdqsd

Question 1:

A financial crisis may have multiple causes. Generally, a crisis can occur if institutions or assets areÂ 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 anÂ 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 Partyâ??unpopular tax legislation in the 13 coloniesâ??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 1973â??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 1997â??1998. One big upshot of the crisis was the adoption of theÂ 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, theÂ Financial Stability Oversight Council, was devised to monitor systemic risk. Greater investor protections were introduced, including a new consumer protection agency (theÂ 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.

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Required

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

Discuss the causes of the crisisÂ Â .Â (15marks

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

Section B dsdq

Question 1:

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

Question 2:

a) Discuss the functions of financial markets in an economy.Â (10Marks)
b)Explain the role played by different participates in financial markets.Â (10Marks)Â Â

Question 3:

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 countryâ??s
Â economy(10marks)

Question 4:

Discuss with examples the independence of the central bank in your country.Â Â
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Question 5:

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 .Â Â Â Â Â Â Â Â Â Â Â Â
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Question 6:

a)Explain using examples the causes of inflation in your country.Â Â Â Â Â
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b)Â Â Â Discuss the effects of inflation in Ugandaâ??s Uganda
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(10Marks)Â Â
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