

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL MARKETS 2 (IOBM – AD320)**

**Date: Sunday, 16th November 2014**

**Time Allocated: 3 hours (13:30 – 16:30 hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

You are a consultant working for Martyre Consulting Group (MCG) and your client Government of Martyre is planning for macroeconomic policies for its 2014/15 fiscal year. The key economic highlights for 2013/14 calendar year and the target for the following year are as follows: -

Actual as at 30th June 2013 Target for 30th June 2014

Key economic indicator

Martyre Kwacha/USD 350 400

Minimum wage MK 18,000 MK 30,000

Inflation 30% 20%

Income tax 30% 40%

Treasury bills issued MK 500 Bn MK 700 Bn

1. As part of your notes to your clients you would like to explain each of the following macroeconomic policies;
2. Monetary Policy  *(2 marks)*
3. Fiscal Policy  *(2 marks)*
4. Exchange rate policy  *(2 marks)*
5. Price and Income Policy  *(2 marks)*
6. National Debt Management Policy *(2 marks)*
7. Using the set target for Government of Martyre, match which policy would be used to achieve a specific key economic indicator?

*(3 marks)*

1. Explain why it is important for the Government of Martyre notto consider each policy on its absolute impact in achieving a specific economic indicator, but consider a combination that would achieve a balanced economic stability.

*(2 marks)*

**(Total 15 marks)**

**QUESTION 2**

A country in the sub-Saharan Africa called Mahawi, its citizens through their pressure group called Movement for Justice are giving pressure on its Central Bank to provide controls and explain **five** issues which they present in a petition entitled “trust is broken, don’t milk thin cows”

In the petition the pressure group highlighted the following five key challenges: -

1. The prices for banking services are too high, and reports show that Mahawi is the highest in the sub-Saharan Africa; we want bank services pegged at regional average prices.
2. The banks are just mindful of opening more than10 branches in cities, and they are not willing to invest branches in rural areas thereby giving access to credit to rich people only, this has led to increased gap between the rich and the poor and we want Central Bank to revoke licence in the next five years if a bank will not have planted a branch every district.
3. The gap between the Reserve Bank’s lending rate and banks borrowing rate is too high, there should be a fixed margin across the banks that must be managed by the Central Bank.
4. We are not happy with the banks corporate social responsibilities as they invest heavily in sports, where there is an economic return. The pressure group proposes that the Central Bank should introduce a standard levy of 1% on the banks revenue which will go towards the funding of village banks, and in return this village banks will be providing banking facilities in typical villages where the banks cannot provide facilities.
5. The collapse of some banks in the world have provided risk on our local banks existence and we want more liquidity in the system through increased capital requirement
6. As an officer working for the Central Bank, you would like to recommend to your supervisor on how the following can be deployed in order to address each concern about the pressure group.

1. Reserve requirements.  *(3 marks)*
2. Special deposits. *(3 marks)*
3. Supplementary special deposits. *(3 marks)*
4. Moral suasion.  *(3 marks)*
5. Direct control. *(3 marks)*

**(Total 15 marks)**

**QUESTION 3**

Distinguish the following terms: -

1. Covered interest parity and uncovered interest parity.  *(5 marks)*
2. Leading and lagging. *(5 marks)*

1. Crawling peg and currency basket peg exchange rate systems. *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. What are the functions of the following positions under a collective Investment Scheme?
2. Fund Manager
3. Fund Administrators
4. Board of Directors
5. Unit holders *(4 marks)*
6. Distinguish between load open ended investment scheme and no-load ended investment scheme? *(4 marks)*
7. Nkhwendabweka investment scheme has K1 million shares of K50 per 1,000 shares. If the fund’s manager charge a load of 5% of the Net Asset Value, find the offer price per shares *(4 marks)*
8. Collective Investment Schemes can be classified according to their asset orientation or investment objective. Give **three** examples under investment schemes classified according to their asset orientation.
9. *marks)*

**(Total 15 marks)**

**SECTION B** **(40 MARKS)**

Answer **ANY TWO** questions from this section.

**QUESTION 5**

A certain country in Sub-Saharan Africa has launched a 2014/15 Export Strategy called National Export Strategy. In the National Export Strategy the country would like to achieve the following key objectives: -

1. Increase export base through *agricultural export* by emphasizing green belt initiatives and introduction of farming contracts by international companies to commercial farmers in order to provide quality farm inputs and create international market for local farmers.
2. *Explore mining* of minerals and create a competitive mining sector which will be able to off-set current dependency on agricultural output for its foreign exchange.
3. Being a land locked country, the country would like to achieve *a regional integration on transport* in order to reduce transportation cost to sea coast and improve efficiency coverage and distribution.
4. *Increase Foreign Direct Investments* (FDI) by providing tax incentives and investment incentives in order to boost international investment in the country.
5. *Increase domestic manufacturing* on consumer goods and achieve affordable domestic prices in order to reduce the import base of basic commodities.

Being a student studying with Institute of Bankers in Malawi, you have been given an opportunity to make presentation to the next meeting at Lions Hotel. The workshop is called “*National Export Strategy achieving a sustainable social economic growth”*

1. Using examples in your presentation discuss the **three** types of foreign exchange risk exposure? .

**Note:** (Three marks will be awarded based on quality of the information flow, correctness and practical examples that will be used to back up your arguments)  *(9 marks)*

1. In your presentation you would like to make a recommendation on how each of the following strategic objectives would increase the country’s foreign currency base.
2. Expansion of agricultural export base.
3. Exploration of mining.
4. Regional Transport integration.
5. Foreign direct investment.
6. Increased domestic manufacturing.

**Note:** (Two marks will be awarded based on quality of the information flow, correctness and practical examples that will be used to back up your arguments). *(10 marks)*

1. Give **one** example on how companies can successfully hedge against foreign currency exposure.  *(1 mark)*

**(Total 20 marks)**

**QUESTION 6**

Recently the world has experienced the coming of Islamic bonds in the western financial markets; this has brought excitement on the market to review and study the slope of the Islamic bonds.

As an officer in MalBOND Bank, you are required to review the **three** fundamental theories on bond behaviour in order to set your goals in analysing the performance of Islamic bonds.

**(Total 20 marks)**

**QUESTION 7**

Discuss **five** factors that influence the price of an option.

**(Total 20 marks)**

**QUESTION 8**

Below are four diagrams that explains the shift in loanable funds between the Botswana Pula and Malawi Kwacha, with the aid of the diagrams presented, explain the economic activities taking place in each diagram.

***S (K/BWP) F (K/BWP)***

**SBWP SBWP**

**S’BWP**

**A F2 B**

**S1**

**S2 F1**

**B A**

**DBWP DBWP D’BWP**

**Q Q**

**QBWP QBWP QBWP QBWP**

**Panel (a) Panel (b)**

***RBW***

**S’L SL S’L**

**SL**

**B R1MW A**

**R2BW**

**R1BW R2MW B**

**A**

**DL DL**

**Q**L QL QL QL**

**Panel (c) Panel (d)**

**(Total 20 marks)**

**END OF EXAMINATION PAPER**