



ZIMBABWE

MINISTRY OF HIGHER AND TERTIARY EDUCATION

**HIGHER EDUCATION EXAMINATIONS COUNCIL
(HEXCO)**

NATIONAL DIPLOMA

IN

BANKING AND FINANCE

**SUBJECT: Principles of Banking and
Finance**

PAPER NO: 524/ S01

NOVEMBER/DECEMBER 2010 EXAMINATION

REQUIREMENTS

INSTRUCTIONS TO CANDIDATE

Answer any five(5) questions

This paper consists of 3 printed pages.

MS/2010

QUESTION 1

- (a) "The imposition of statutory reserves requirements on deposit taking institutions imposes an indirect tax on the banking system." Discuss. (6 marks)
- (b) Distinguish between internal and external efficiency as they relate to financial markets. (4 marks)
- (c) Discuss three factors that contribute to the efficiency of a financial market. (6 marks)
- (d) State two advantages and two disadvantages of a floating exchange rate system. (4 marks)

QUESTION 2

- (a) Explain the economic role of financial intermediaries. (10 marks)
- (b) Examine the economic benefits of having a financial system that is fully integrated with the international financial system. (10 marks)

QUESTION 3

- (a) Discuss the role of arbitrageurs and speculators in financial markets. (8 marks)
- (b) Evaluate the importance of working capital management in a business. (6 marks)
- (c) Define the following risks
(i) market risk
(ii) credit risk
(iii) operational risk (4 marks)

QUESTION 4

- (a) Evaluate the effectiveness of discounted cash flow techniques (DCF) as decision making aids for finance managers. (6 marks)
- (b) Discuss the key differences between debt and equity capital. (8 marks)
- (c) Explain how a firm's capital structure may affect shareholder value in a world with corporate taxes. (6 marks)

QUESTION 5

- (a) Identify any three (3) functions of a Central Bank and explain how the introduction of the multi-currency regime has affected the Reserve Bank of Zimbabwe's ability to perform these functions. (9 marks)
- (b) Discuss the concept of systemic risk as it relates to the recent global financial crisis. (6 marks)
- (c) Evaluate the role of technology in retail banking. (5 marks)

QUESTION 6

- (a) ABC Ltd has a target capital structure that requires the debt/equity ratio to be at 40%. ABC intends to raise funds totalling \$1,5 million for expansion projects. The required yield on ABC's debt is 9% before tax and shareholders require a return of 15% on their investments. The marginal tax rate for ABC is 35%. Calculate the weighted average cost of capital for ABC, assuming that all new equity will be internally generated. (4 marks)
- (b) A 91 -day government bill is purchased for \$95 at the time of issue and is redeemed at the maturity date for \$100. Over the 91 days, an index of consumer price rises from 220 to 222.

Calculate the effective real rate of return per annum. (5 marks)
- (c) Examine the three forms of market efficiency and discuss the implications of each on security analysis. (11 marks)

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