



**ASSOCIATESHIP EXAMINATION**  
**THE MONETARY AND FINANCIAL SYSTEMS**  
**LEVEL I**  
**[NEW SYLLABUS]**  
**APRIL 2025**

**NB:**

1. Read carefully the instructions on the cover of the answer booklet.
2. The total number of questions in Section A is THIRTY, Section B is FOUR and Section C is TWO.
3. Section A carries 30 marks; Section B carries 40 marks and Section C carries 30 marks. Where questions are subdivided, the marks for each subdivision are shown in brackets.
4. Answer **ALL** questions in **Section A (Objectives)**, answer any **TWO** questions in **Section B (Essay)**, and answer only **ONE** question in **Section C (Case/Scenario Based)**.
5. Answers in listed note form are acceptable, provided they are clearly and logically presented and the points made are adequately developed.
6. No aids such as calculators, books, dictionaries, papers, mathematical sets, mobile phones or electronic wristwatches are permitted in this examination.
7. **Time allowed: THREE HOURS. Additional reading time of 15 minutes** is allowed at the beginning of the examination during which time candidates may write on this paper but not in the answer booklet.
8. Candidates must ensure that they answer questions in the appropriate answer booklets and **NOT on loose sheets** which may be used only as supplementary sheets. Such answers will not be marked.
9. **DO NOT WRITE YOUR NAME ON THE ANSWER BOOKLET.**
10. **DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

## **SECTION A – OBJECTIVES (MULTIPLE CHOICE QUESTIONS)**

**(ANSWER ALL QUESTIONS. EACH QUESTION CARRIES 1 MARK. TOTAL: 30 MARKS)**

1. What is the primary function of Financial Markets?
  - a) Managing government regulations
  - b) Facilitating the buying and selling of financial assets
  - c) Providing insurance to businesses
  - d) Issuing loans to individuals
  
2. Which of the following is a key function of Stock Market Indices?
  - a) Tracking performance of a group of stocks and serve as market benchmarks
  - b) Provide legal advice to investors
  - c) To distribute dividends to shareholders
  - d) To regulate trading activities on Stock Exchanges
  
3. The primary goal of Private Equity Firms is to.....
  - a) Provide short-term loans to businesses
  - b) Maintain long-term part-ownership without selling the stake
  - c) Influence government policies
  - d) Restructure and improve operations for a profitable exit
  
4. Which of the following valuation methods focuses on estimating the Present Value of a company's future Cash Flows?
  - a) Price-Earnings (P/E) Ratio
  - b) Price-to-Book (P/B) Ratio
  - c) Discounted Cash Flow (DCF) Analysis
  - d) Dividend Discount Model (DDM)
  
5. What does the “Fisher Effect” suggest about Nominal Interest Rates?
  - a) They remain unchanged
  - b) They decrease

- c) They increase
  - d) They become negative
6. One of the following is a function of the Central Bank of Ghana, the Bank of Ghana .....
- a) Issuing corporate bonds
  - b) Regulating depository financial institution
  - c) Selling insurance policies
  - d) Offering microfinance loans
7. The primary purpose of the Bond Market is to.....
- a) Facilitate raising long-term debt capital
  - b) Provide services bond holders
  - c) Regulate bond prices
  - d) Manage government debt securities
8. Which of the following financial institutions specialize in helping corporations to raise long-term capital?
- a) Commercial Banks
  - b) Credit Unions
  - c) Insurance Companies
  - d) Investment Banks
9. What functions distinguish a Commercial Bank from an Investment Bank?
- a) Investment Banks provide mortgages, while Commercial Banks do not
  - b) Commercial Banks do not accept deposits, while Investment Banks trade in securities
  - c) Commercial Banks focus on deposit-taking and loans-advancing, while Investment Banks focus on issuance of long-term securities for corporations
  - d) Investment Banks do not facilitate mergers and acquisition
10. The role of Derivative Securities in the financial markets is to.....
- a) Eliminate all investment risks

- b) Help manage risk against adverse price movements
- c) Provide regulatory oversight of the financial market
- d) Guarantee profits regardless of market conditions

11. What does inverted Yield Curve represent?

- a) Economic Recession
- b) Higher Inflation
- c) Market Volatility
- d) Economic Expansion

12. How does financial intermediation impact Economic Growth?

- a) Enhancing lending activities of non-bank financial institutions
- b) Directing funds into economic activities
- c) Increasing tax revenues for Central Government activities
- d) Eliminating the need for brick-and-mortar bank branches

13. A company is exposed to Foreign Exchange Risk. Which financial instrument should it use to mitigate against currency fluctuations?

- a) Options
- b) Commercial Papers
- c) Treasury Bonds
- d) Forward Contracts

14. If a country increases its Money Supply, what is the likely effect on its inflation?

- a) Inflation decreases
- b) Inflation remains unchanged
- c) Inflation increases
- d) Deflation occurs

15. A Central Bank can influence short-term interest rates by.....

- a) Issuing Treasury Bills

- b) Adjusting the Policy Rate
- c) Issuing Government Bonds
- d) Increasing Corporate Tax

16. What is the mostly commonly used Financial Metric for assessing a company's liquidity?

- a) Current Ratio
- b) Net Profit Margin
- c) Debt-to-Equity Ratio
- d) Return on Equity

17. A Central Bank's Monetary Policy impacts credit availability by.....

- a) Deregulating Deposit-Taking Institutions
- b) Increasing Corporate Tax Rate
- c) Adjusting Reserve Requirements for Banks
- d) Controlling Banking Management

18. How does an increase in Bond Coupon Rate affect the Bond Price?

- a) Price increases
- b) Price remains unchanged
- c) Price becomes volatile
- d) Price decreases

19. What is the relationship between Risk and Return in Investment?

- a) Risk usually has zero effect on return
- b) Higher risk commonly results in higher return
- c) Lower risk usually means higher potential return
- d) Higher risk usually means lower return

20. Which of the following is true between inflation and purchasing power?

- a) Stabilizes purchasing power
- b) Increases purchasing power

- c) Decreases purchasing power
- d) Has no net effect on purchasing power

21. What is the relationship between Interest Rate changes and Mortgage Cost?

- a) Higher interest rates increase mortgage costs
- b) Interest rate changes do not affect mortgage costs
- c) Lower interest rates increase mortgage costs
- d) Mortgage costs decrease when interest rates rise

22. Why do Central Banks adjust the Money Supply?

- a) To control currency fluctuations and stabilize the Cedi
- b) To improve tax revenue collection and increase economic growth
- c) To enhance financial literacy and influence financial inclusion
- d) To control inflation and stabilize the economy

23. What is the primary role of Financial Institutions in an economy?

- a) Implementing government financial regulations
- b) Facilitating the flow of funds
- c) Providing investment advice to investors
- d) Conducting market research for businesses

24. Which of the following best defines the term 'Monetary Policy'?

- a) Laws governing financial institutions
- b) Government policies affecting banking operation
- c) Control of money supply and interest rates
- d) Revenue mobilisation measures of government

25. What is the main purpose of Credit Risk Management in Banking?

- a) Maximizing shareholder returns
- b) Enhance size of loan portfolio
- c) Minimize loan origination costs

d) Mitigate against default on loans

26. The objective of most investors in Financial Institutions is seeking financial returns, while for other stakeholders it is seeking positive social impact by supporting small businesses. If you are an investor, which of the following institutions will you invest in?

- a) Microfinance Firms
- b) Credit Unions
- c) Rural and Community Banks
- d) Savings and Loans Companies

27. Which of the following Deposit-Taking Financial Institutions limits its service provisions to only its member-owners?

- a) Rural and Community Banks
- b) Credit Unions
- c) Savings and Loans Companies
- d) Microfinance Firms

28. A financial instrument issued by Commercial Banks on behalf of clients to facilitate International Trade Payments is called a.....

- a) Letter of Assurance
- b) Letter of Guarantee
- c) Letter of Credit
- d) Letter of Commitment

29. Group Lending and Collateral Substitutes are innovative lending mechanism associated with which of the following lending institutions?

- a) Rural and Community Banks
- b) Credit Unions
- c) Savings and Loans Companies
- d) Microfinance Institutions

30. An Accounting System that leverages Fintech to facilitate decentralization of Ledger System, to ensure security and transparent transaction is called .....
- a) Blockchain Technology
  - b) Robotic Process Automation
  - c) Robo-Advisor
  - d) Internet on Things (IoT)

**SECTION B – ESSAY QUESTIONS**  
**ANSWER ANY TWO (2) QUESTIONS**

**QUESTION 1**

- i) Explain the implications of Monetary Policy changes on inflation in a country. **(10 marks)**
  - ii) How will the scenario above impact the Economic Growth of a country? **(10 marks)**
- [Total: 20 marks]**

**QUESTION 2**

“For Commercial Banks to survive they navigate diverse risk factors as an integral part of their daily operations.”

- i) Explain in detail how any three (3) of these risk factors can affect their role in an economy. **(12 marks)**
  - ii) Describe how the use of Derivative Securities contributes to Risk Management in Banking. **(8 marks)**
- [Total: 20 marks]**

**QUESTION 3**

Finance Companies are categorized into three (3) main groups based on the type of financial services they offer and their regulatory requirements.

- i) With examples describe the three (3) categorizations of Finance Companies in Ghana. **(9 marks)**
- ii) Describe Underwriting Services offered by Investment Banks. **(3 marks)**



iii) Explain the two (2) relevant Fintech Technologies that can be used to automate the underwriting process of an Investment Bank. **(8 marks)**

**[Total: 20 marks]**

#### **QUESTION 4**

i) Explain the concept of ‘**off-balance sheet activities**’ undertaken by Commercial Banks.

**(4 marks)**

ii) Describe the following basic types of ‘**off-balance sheet activities**’ the Commercial Banks undertake.

- a. Guarantee
- b. Letters of Credit
- c. Securitization
- d. Derivatives Contracts

**(4 marks each x 4= 16 marks)**

**[Total: 20 marks]**

### **SECTION C – CASE/SCENARIO BASED QUESTIONS**

#### **ANSWER ONLY ONE (1) QUESTION**

#### **QUESTION 1**

Zumunta Bank is facing challenges of increasing competition, and regulatory changes, hence the need to innovate its product offerings to stay competitive in the market. Additionally, the bank is exploring the opportunity to diversify its operations into the growing Pension Fund Market. To achieve that, the bank decided to collaborate with a Pension Fund Management firm.

#### **Required:**

As the Chief Executive Officer (CEO) of the Pension Fund Management firm

i) Describe what Pension Funds are in the Financial System. **(5 marks)**

ii) Name and describe in detail the four (4) main functions of Pension Funds in Ghana.

**(12 marks)**

iii). Explain in detail the five (5) key components of Pension Fund investment portfolios in Ghana. **(13 marks)**

**[Total: 30 marks]**

## **QUESTION 2**

ABC Bank, a leading financial institution in Ghana, has recently faced significant challenges related to Corporate Governance. The bank's Board of Directors was found to lack independence, with a majority of Board Members having close personal and business ties with the bank's Executives. Additionally, the bank's Internal Control Systems were weak, leading to mismanagement of funds and excessive risk-taking by the Management. The Regulatory authority, the Bank of Ghana, intervened by introducing stricter Corporate Governance Guidelines, requiring the bank to restructure its Board, strengthen Internal Risk Management Frameworks, and enhance transparency in decision-making processes. As part of the reforms, ABC Bank was required to implement Fit and Proper Criteria for Directors, comply with Prudential Regulations, and adhere to Ethical Standards to regain public and investor confidence.

### **Required:**

- i) Explain in detail the importance of Corporate Governance in the Banking Sector and how it contributes to the financial performance of banks. **(15 marks)**
- ii) Describe three (3) key Corporate Governance issues observed in ABC Bank. **(9 marks)**
- iii) Suggest two (2) measures ABC Bank can implement to improve its Corporate Governance Framework. **(6 marks)**

**[Total 30 marks]**