



**CHARTERED INSTITUTE OF BANKERS (GHANA)  
ASSOCIATESHIP EXAMINATION  
LEVEL II**

**THE MONETARY AND FINANCIAL SYSTEM**

**JULY 2020**

**N.B:**

1. Read carefully the instructions on the cover of the answer book.
2. Answer a total of **FIVE (5)** questions.
3. Each question carries **20** marks. Where questions are subdivided, the marks for the subdivisions are shown in brackets.
4. Answers in listed note form are acceptable provided they are logically and clearly presented and the points made are adequately developed.
5. No aids such as calculators, books, dictionaries, papers, mathematical sets or slide rules are permitted in this examination.
6. Time allowed: **THREE HOURS.**
7. The total number of questions in this paper is **EIGHT (8).**
8. Candidates must ensure that they answer question in the appropriate answer book and **NOT on loose sheets** which are used only as supplementary sheets. Such answers will be cancelled.
9. **DO NOT WRITE YOUR NAME ON THE ANSWER BOOK.**
10. **DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

**ANSWER ANY FIVE QUESTIONS**

**QUESTION 1**

Discuss the functions of money in a modern economy and explain how it overcomes the limitations of the barter economy. **[Total Marks: 20]**

**QUESTION 2**

One of the major concerns of Central Banks is how to effectively control credit creation and hence money supply in an economy.

- a) Explain how money supply is controlled by the Central Bank using the following tools/instruments:
- i. The policy rate
  - ii. Open Market Operation
  - iii. Required reserve ratio

**(12marks)**

- b) Discuss the effectiveness of the above instruments in Ghana.

**(8marks)**

**[Total Marks: 20]**

**QUESTION 3**

- a) Distinguish between current account and capital account of the Balance of payments **(5 marks)**
- b) Explain how a government can rectify;
- i. A deficit on the current account. **(7.5marks)**
  - ii. A deficit on the capital account. **(7.5marks)**

**[Total Marks: 20]**

**QUESTION 4**

Identify and discuss the informal credit delivery sector and its importance to the economy of Ghana.

**[Total Marks: 20]**

### QUESTION 5

a) Discuss the degree of liquidity of the following assets

- i. Treasury bills
- ii. Gilt-edged stock
- iii. Bank notes
- iv. Certificates of deposit

**(10 marks)**

b) Explain how a company may use interest rate swap as a means of managing interest rate risk.

**(10 marks)**

**[Total Marks: 20]**

### QUESTION 6

Financial Intermediaries can bridge the gap between borrowers and lenders and reconcile their often incompatible needs and objectives. Banks bridge this gap by performing the transformation functions: Size transformation, Maturity transformation and Risk transformation.

a. Explain financial intermediation as a business activity.

**(5marks)**

b. Explain how Size transformation, Maturity transformation, and Risk transformation bridge the gap between lenders and borrowers

**(15marks)**

**[Total Marks: 20]**

### QUESTION 7

a) Distinguish between monetary policy and fiscal policy? (5marks)

b) Using monetary policy as an illustration, and giving specific examples, clearly explain the following;

- i. Instruments (5marks)
- ii. Targets (5marks)
- iii. Objectives (5marks)

**[Total Marks: 20]**

### QUESTION 8

Financial markets and institutions are so important that they should be regulated. Discuss the rationale for the regulation of financial institutions and markets.

**[Total Marks: 20]**