

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BANKING (IOBM – C104)**

**Date: Monday, 4th May 2015**

**Time Allocated: 3 hours (08:00 – 11:00 am)**

**INSTRUCTIONS TO CANDIDATES**

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

2 Section A consists of 20 Multiple questions, each question carries 2 marks.

Answer **ALL** questions.

3 Section B consists of 5 questions, each question carries 20 marks. Answer **ANY THREE** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when 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. All answer books without examination number 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.

1. Fraudulent transactions can be facilitated by one of the following omissions.
   1. Failure to inform the bank upon identifying suspicious transactions on the account.
   2. Always sending a messenger to cash cheques.
   3. Issuing too many cheques on the account.
   4. Failure to give correct reasons when making a stop-payment.
2. Financial Intermediation is important in any country because it helps to:
   1. Ensure Open Market Operations (OMO) work effectively and efficiently.
   2. Directly assists in the prevention of money laundering activities.
   3. Bring together savers and borrowers.
   4. Intermediate whenever there are disputes between banks.
3. In banker-customer relationship, the customer is a …………. when the account is overdrawn
   1. Depositor.
   2. Saver.
   3. Creditor.
   4. Debtor.
4. The term “general clearing” refer to situation where the customer’s account has a deposit containing cheques that are:
   1. Drawn on the same bank awaiting payment.
   2. Drawn in amounts that are generally seen on most cheques.
   3. Drawn on an inactive account.
   4. Drawn on another bank awaiting payment.
5. What is the term given to the characteristic of a cheque which makes it transferable?
   1. Transferability.
   2. Acceptability.
   3. Negotiability.
   4. Divisibility.
6. How can a country be affected by uncontrolled money supply?
   1. Increased inflation.
   2. Foreign exchange fluctuations.
   3. Small banks will make losses and eventually close down.
   4. Cost of note printing will be high.
7. Why do so many people invest on the money market?
   1. Money market securities pay high interest rates.
   2. Money market securities can be sold and turned into cash easily.
   3. Money market securities are risk free.
   4. Money market securities cannot be forged.
8. What is the term given to the risk associated with reliance on one major customer?
   1. Concentration risk.
   2. Operational risk.
   3. Reputational risk.
   4. Speculative risk.
9. The process which is undertaken when money launderers want to disguise the audit trail of some fraudulent transactions.
   1. Integration
   2. Placement
   3. Profiling
   4. layering
10. The behavior which causes the majority of customers to switch service providers
    1. Laziness.
    2. Lack of vision.
    3. Attitude of indifference.
    4. Dishonesty among employees.
11. What type of a crossing do you have when a bank places a date stamp on the face of the cheque?
    1. General crossing.
    2. Special crossing.
    3. Qualified crossing.
    4. Restrictive crossing
12. What do you call the strategy used by the Central Bank to influence banks to comply with certain requirements without using Directives or any other enforcement?
    1. Inside trading.
    2. Discounting.
    3. Moral suasion.
    4. Open market operations.
13. The Central Bank can deploy one of the following measures to control the process of credit creation
    1. Imposition or upward adjustment of liquidity reserve requirement ratios
    2. Deregulating the market
    3. Encourage peer pressure among market players
    4. Introduction of incentives
14. Customer screening under KYC refers to:
    1. Requesting for medical test for new customers
    2. Proper record keeping
    3. Extensive investigation to verify information provided
    4. Proper categorization of customers into sectors
15. What do you understand by deregulation?
    1. Relaxing of controls in terms of rules and regulations.
    2. De-registering banks that continue to make losses.
    3. Observing that banks strictly adhere to procedures and guidelines.
    4. Efforts by government to introduce modern rules and regulations.
16. The Reserve Bank of Malawi announces that LRR is now at 25%. How much should your bank deposit at the Central Bank against its total deposits of MK400 million?
    1. MK40 million
    2. MK25 million
    3. MK100 million
    4. MK375 million
17. How much would you keep in your account to purchase a MK100, 000 Treasury Bill if the discount rate is 5%.
    1. MK5,000
    2. MK95,000
    3. MK100,000
    4. MK105,000
18. Which is the correct interpretation of the following sort code on a cheque 10.07.70
    1. Bank reference/ area code/ branch reference
    2. Area code/ bank reference/ branch reference
    3. Branch reference/ bank reference / area code
    4. Area code / branch reference / bank reference
19. The motive of a person who holds money to make some gains when values of other assets fluctuate.
    1. Precautionary.
    2. Transactional.
    3. Business.
    4. Speculative.
20. A local cheque which a bank issues drawn on itself to guarantee that any person who gets it will be paid
    1. Special clearance voucher.
    2. Foreign draft.
    3. Certified cheque.
    4. Credit card.

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

1. Mention **five** general functions of a commercial bank and explain what is involved under each function.  *(10 marks)*
2. What are the **five** obligations customers have towards the bank? Clearly explain what each obligation involves to demonstrate your understanding.

*(10 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Explain the concept of comparative advantage. *(4 marks)*
2. State **three** major challenges that were addressed by barter trade before money was introduced. *(6 marks)*
3. Highlight at least **five** characteristics found in present day forms of money which are superior to barter trade *(10 marks)*

**(Total 20 marks)**

**QUESTION 4**

1. Why should money supply be controlled? *(2 marks)*
2. Give threeproblems associated with monetary instability.  *(6 marks)*
3. Mention the **four** parties that can endorse a cheque. *(4 marks)*
4. Mention **four** different reasons which each of the parties mentioned above would have in mind when endorsing a cheque . *(8 marks)*

**(Total 20 marks)**

**QUESTION 5**

1. What is the main objective of having monetary policy in a country?  *(2 marks)*
2. How do the authorities use the discount rate as a tool to fight deflation in an economy?  *(4 marks)*
3. “Reasonable customer service is about meeting customer expectations”. Mention at least **four** things that customers expect from providers of goods and services. *(8 marks)*
4. Mention at least **three** roles which the government can play in the fight against money laundering.  *(6 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Outline the four major differences between a Bill of Exchange and a cheque.  *(4 marks)*
2. Name the **four** parties that are eligible to cross a cheque. *(4 marks)*
3. Mention at least **three** money market instruments and how each instrument is used to raise funds.  *(12 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**