

**National University of Lesotho**  
**BA SUPPLEMENTARY EXAMINATIONS**  
**EC4304 – Financial Markets & Institutions**

**August 2023**

**100 Marks**

**3 Hours**

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**INSTRUCTIONS:**

- 1) Answer ANY FOUR questions.
- 2) Explain ALL your answers and provide relevant examples where applicable.

### *Question 1*

- a) The Minister of Finance believes that financial inclusion efforts for the country's poorest people have focused on urban areas, with some observed successes. However, she would like to see not only informal but also formal financial institutions extending their reach to the rural poor.
- i.* Could the Minister's wish be achieved by imposing more regulation on formal financial institutions? Justify. [5]
  - ii.* What role is played by informal financial institutions in addressing the financial needs of the rural poor? [5]
  - iii.* Are there other possible ways through which the Minister could bridge the observed gap between informal and formal financial sectors? Justify. [5]
- b) How did the prolonged and widespread COVID-19 pandemic affect the level of financial development in developing countries? Explain using relevant graph(s). [5]
- c) Do you support the reduction of after-tax rates for corporate bonds as part of COVID-19 relief measures? Justify using relevant graph(s). [5]

### *Question 2*

- a) Review the key differences between the Gold Standard and the Bretton Woods system, highlighting both their successes and failures. [10]
- b) What benefits and costs do countries within the Southern African Common Monetary Area (CMA) face from pegging to a single currency? [10]
- c) Do we need regional development banks today and tomorrow? Justify. [5]

### *Question 3*

“Silicon Valley Bank (SVB) collapsed after it tried to raise \$2.25bn to plug a loss caused by the sale of assets, mainly government bonds, which had been affected by higher interest rates.”

- a) Use the ‘agency costs theory’ and the ‘Diamond-Dybvig model’ to relate how the failure of SVB occurred. [10]
- b) To what extent did the failure of SVB threaten the safety of the country’s banking sector? Justify. [5]
- c) What policy options were available to limit the impacts of SVB failure? Discuss. [10]

### *Question 4*

- a) Briefly discuss five major issues that are currently influencing global financial conditions. [10]
- b) How are the emerging market and developing economies affected by the recent global financial risks? [10]
- c) Present two main policy recommendations on how to combat the effects of emerging global financial risks. [5]

### *Question 5*

- a) Using the stages of the dynamics of financial crises, relate how the 2007-2008 global financial crisis occurred. [15]
  - b) Banks are some of the most heavily regulated financial institutions. To what extent do you support this kind of heavy regulation of the banking sector? Justify. [10]
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