# Chapter 2 - Test Bank

### Multiple-choice questions

[Go to ⇨ Multiple choice questions - Memorandum](#AC2MCQ)

*Answer the following questions by selecting the appropriate answer from the list below.*

**The South African Reserve Bank (SARB) defines its primary objective as the**

1. development and maintenance of financial markets
2. achievement and maintenance of price stability
3. efficient provision of banking services to government
4. provision of statistical data and information to the public

**Who appoints the three deputy governors of the SARB?**

1. The President of South Africa
2. The Governor of the SARB
3. The Minister of Finance
4. Parliament

**What is the main reason for the SARB’s operations in the financial markets?**

1. Diversification of the government asset portfolio
2. Investment of short-term deposits for the public sector
3. Implementation of the interest rate policy
4. Management of the official foreign exchange reserves

**The SARB creates a liquidity requirement (shortage) in the money market by making use of which of the following policy instruments?**

1. Statutory cash reserve requirements
2. Open-market operations
3. Government budget deficits
4. Exchange rates
5. (i) and (ii) only
6. (iii) and (iv) only
7. (i), (ii) and (iii) only
8. (i), (iii) and (iv) only

**Which ONE of the following statements with regard to the open market operations of the SARB is correct?**

1. The number of reverse repo transactions that the SARB can enter into is limitless.
2. Foreign exchange swap transactions of the SARB are becoming increasingly important.
3. Open market purchases of securities by the SARB are aimed at creating a liquidity shortage.
4. Open market operations by the SARB are only performed in the secondary markets.

**Which of the following policies may be effective to counteract the impact of procyclicality within the financial system?**

1. Obligatory deposit insurance for all commercial banks
2. An increase in capital requirements during economic upswings
3. A decrease in the reserve requirement during economic upswings
4. Lowering bank accommodation rates during economic downturns

**Which ONE of the following transaction types is settled through the Continuous Linked Settlement (CLS) network system?**

1. Domestic interbank transactions
2. Repurchase agreements (repos)
3. Foreign exchange transactions
4. Money market instruments

**Who is responsible in South Africa for management of public debt?**

1. The Corporation of Public Deposits (CPD)
2. The South African Reserve Bank (SARB)
3. The National Treasury
4. The Financial Surveillance Department

**What is the responsibility of the Financial Surveillance Department within the foreign exchange control framework?**

1. Day-to-day administration of exchange control
2. Determination of exchange control policy
3. The appointment of foreign exchange dealers
4. Provision of foreign exchange services to government

**Which of the following statements with regard to the CPD are correct?**

1. Cash flows of the CPD impact on market liquidity.
2. Surplus generated by the CPD must be transferred to the government.
3. It is a prerequisite that the CPD mainly invests in long-term assets.
4. The CPD functions as a division of the South African central government.
5. (i) and (ii) only
6. (iii) and (iv) only
7. (i), (ii) and (iii) only
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### Written questions

[Go to ⇨ Written questions - Memorandum](#AC2WQ)

*Answer the following questions.*

**Discuss the measures used by the SARB to encourage and support the development of sound, well-managed banking institutions.**

**What is the objective of the Monetary Policy Committee (MPC) of the SARB?**

**Explain the concept of the transmission mechanism of monetary policy.**

**Provide examples of how the SARB drains excess liquidity from the market.**

**Explain the SARB’s approach to macroprudential supervision.**

**Elaborate on a central bank’s role in the maintenance and improvement of a country’s payment system.**

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**Privatisation of government accounts holds several advantages to government and the economic system. List these advantages and explain how they are brought about.**

**List the advantages of the concentration of the note issue in central banks.**

**Describe the main reasons why central banks hold foreign exchange reserves.**

**What is the secondary mandate of the SARB?**

### True or false questions

[Go to ⇨ True/False questions - Memorandum](#AC2TFQ)

*Read the statements below and indicate whether they are true or false.*

**The SARB’s core operations are implemented by the branches of the SARB.**

**In order to drain liquidity from the market, the SARB buys dollars from its counterparties on a spot basis while simultaneously selling these dollars on a forward basis.**

**An important function of the Bank Supervision Department of the SARB is the licensing of banks.**

**The CPD accepts long-term deposits from public sector entities.**

**The main function of the SARB branches is to ensure that there is an adequate supply of new notes and coins to meet the demand by the banks and to replace unfit notes.**

### Choose the correct term

[Go to ⇨ Choose the correct term - Memorandum](#AC2CTCT)

*Select the correct term to make the statement accurate.*

**The level of the inflation target in South Africa is announced by the South African Reserve Bank Governor/Minister of Finance.**

**Clearing (commercial) banks need to comply with the cash reserve requirement on a daily/ average basis.**

**The interest of reverse repos issued by the SARB is capped at the level of the prevailing Treasury bill/repo rate.**

**The South African Multiple Option Settlement (SAMOS) system settles transaction on a pre-funded/payment-versus-payment basis.**

**The inflation target is a range/ point target.**

# Chapter 2 - Memorandum

### Multiple-choice questions

[Go back to ⇦ Multiple choice questions](#C2MCQ)

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### Written questions

[Go back to ⇦ Written questions](#C2WQ)

*Answer the following questions.*

**Discuss the measures used by the SARB to encourage and support the development of sound, well-managed banking institutions.**

**SARB encourages and supports the development of sound, well-managed banking institutions firstly by monitoring the financial risks that banks undertake, and secondly by providing lender-of-last-resort assistance to banks in order to safeguard the system from systemic risks. Such assistance is only extended when the failure of the bank would pose a serious threat to the financial system as a whole.**

**What is the objective of the Financial Stability Committee (FSC) of the SARB?**

**The objective of the FSC is to complement the price stability objective of the SARB through the formulation and implementation of appropriate macroprudential policy measures to limit the cost of system-wide distress in the financial system.**

**Explain the concept of the transmission mechanism of monetary policy.**

**The transmission mechanism of monetary policy involves a complex set of relationships that link central bank actions to aggregate demand and inflation. The initial step in the transmission mechanism is central bank action on short-term interest rates in the financial markets, especially the money market. Movements in these rates impact other interest rates and the exchange rate. Such movements in interest rates and the exchange rate ultimately affect aggregate demand and inflation in the real economy.**

**Provide examples of how the SARB drains excess liquidity from the market.**

* **Issuing Reserve Bank debentures**
* **Entering into reverse repos transactions**
* **Entering into foreign exchange swaps**
* **Transfers of government deposits in the CPD**
* **Outright sale of bonds**

**Explain the SARB’s approach to macroprudential supervision.**

**Stability in the financial system can be achieved by, firstly, an effective regulatory infrastructure; secondly, by effective and well-developed financial markets; and thirdly, by effective and sound financial institutions. In its pursuit of financial stability, the Bank relies on market forces to the fullest possible extent and believes that any action taken to contain systemic risk should be at the minimum level that is required for efficiency.**

**Elaborate on a central bank’s role in the maintenance and improvement of a country’s payment system.**

**The role of the central bank involves the clearing of payment instruments, provision of an adequate supply of currency and the preservations of confidence in the value of the currency.**

#### 

**Privatisation of government accounts holds several advantages to government and the economic system. List these advantages and explain how they are brought about.**

* **Simplification of money market management: The flow of funds between the private sector and the SARB historically caused considerable disruption to the money market. Money market management is simplified when a portion of government funds is deposited with commercial banks as the flow of funds between the private sector and the SARB is reduced.**
* **Reduction in the net financing cost of the government: Government deposits with the commercial banks reduce the flow of funds between the private sector and the SARB, contributing not only to a simplification of money market management but also to better cash flow management within the government sector. This in turn reduces the net financing cost of the government.**
* **Government earns interest on deposits of commercial banks: The government is able to earn interest on money deposited with commercial banks as deposits with the SARB do not earn any interest.**

**List the advantages of the concentration of the note issue in central banks.**

* **Effective supervision of note issues which leads to increased confidence in the country’s currency**
* **Providing government with some measure of control over the credit expansion of private banks**
* **Giving the currency notes a distinctive prestige which could be valuable when a crisis arises**
* **Increase in profits by gaining from central bank note issues**

**Describe the main reasons why central banks hold foreign exchange reserves.**

* **This allows the central bank to intervene in the foreign exchange market, i.e. to influence the value of the currency by trading in foreign exchange.**
* **Central banks hold foreign exchange reserves in order to effect transactions.**
* **Foreign exchange reserves serve as a buffer against international financial shocks or crises.**
* **Central banks hold foreign exchange reserves to diversify their portfolio of assets.**

**What is the secondary mandate of the SARB?**

**Financial Stability**

### True or false questions

[Go back to ⇦True/False questions](#C2TFQ)

*Read the statements below and indicate whether they are true or false.*

**The SARB’s core operations are implemented by the branches of the SARB.**

**False – the SARB’s core operations are implemented by six line departments.**

**In order to drain liquidity from the market, the SARB buys dollars from its counterparties on a spot basis while simultaneously selling these dollars on a forward basis.**

**False – the SARB *sells* dollars to its counterparties on a spot basis while simultaneously *buying* these dollars back on a forward basis should it want to drain liquidity.**

**An important function of the Bank Supervision Department of the SARB is the licensing of banks.**

**True**

**The CPD accepts long-term deposits from public sector entities.**

**False – the CPD only accepts short-term deposits.**

**The main function of the SARB branches is to ensure that there is an adequate supply of new notes and coins to meet the demand by the banks and to replace unfit notes.**

**True**

### Choose the correct term

[Go back to ⇦ Choose the correct term](#C2CTCT)

*Select the correct term to make the statement accurate.*

**The level of the inflation target in South Africa is announced by the South African Reserve Bank Governor/Minister of Finance.**

**Minister of Finance**

**Clearing (commercial) banks need to comply with the cash reserve requirement on a daily/ average basis.**

**Average**

**The interest of reverse repos issued by the SARB is capped at the level of the prevailing Treasury bill/repo rate.**

**Repo rate**

**The South African Multiple Option Settlement (SAMOS) system settles transaction on a pre-funded/payment-versus-payment basis.**

**Pre-funded**

**The inflation target is a range/point target**

**Range 3-6%**