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**University Examinations 2015/2016**

THIRD YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BEC 3303: MONEY AND BANKING**

**DATE: AUGUST, 2016 TIME: HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. The following information relates to the exchange rates between the Kenya Shillings and the USA dollar, for the half year period to 30th June 2016 (on average).

EXCHANGE JAN FEB MARCH APR MAY JUNE

RATE shs Shs. Shs. Shs. Shs. Shs.

One US Dollar to

Kenya shilling 100 104 102 106 105 102

The following transactions occurred with USA Dollar as the medium of exchange between Kenya and foreign trading partners during the period to June 30th 2016.

* In January Kenya acquired a 10 year loan of USA 2 billion , dollars at 10% p.a payable semi-annually on 30th June and 30th December. The 1st semi-annual interest was paid on 30th June 2016.
* In February Kenya exported agricultural produce with an invoice value of USA 15 million dollars. However, payment for this batch of export was received in April 2016 by Kenya producers/ farmers.
* In the month March 2016 Kenya imported goods worth USA 50 million dollars. However, these imports were paid for in the month of April 2016 by Kenya importers.
* In May 2016, Kenya imported crude oil at a value of USA 40 million dollars but the debt was paid in June 2016 by the Kenya Oil Importers.

**Required:**

In each of the above transaction show the foreign exchange gains or losses (ignore inflation). (8 Marks)

1. Highlight the measures that the Central Bank uses to stabilize foreign exchange rates, between the Kenya shilling and the dollar, in order to restore value of Kenyan goods and services. (4 Marks)
2. Discuss the role and importance of money in the National and International economies.

(6 Marks)

1. What is Eurobond? Explain the role such a financial instrument can play in fostering economic development across nations or economies. (4 Marks)
2. Explain the following terms as used in money and banking.
3. Purchasing power of money (2 Marks)
4. Liquidity of money (2 Marks)
5. Non-performing loans (2 Marks)
6. Deposits protection fund (2 Marks)

**QUESTION TWO (20 MARKS)**

1. Discuss at least four functions of money. (4 Marks)
2. Elucidate the merits and demerits of paper money. (6 Marks)
3. Explain the rationale behind making the Central Bank to be the only authority or agency for printing and circulation of money in an economy. (4 Marks)
4. Discuss the financial challenges that face the barter trade, highlighting how the ongoing banking innovations are designed to provide remedies across nations. (6 Marks)

**QUESTION THREE (20 MARKS)**

It is no doubt that a Central Bank is a critical and an integral institution to the growth and development of a national economy and its economic stability.

**Required.**

1. Explain the role played by the Central Bank of Kenya with regards to:-
2. Stabilizing interest rates on loans charged by Commercial Banks to realistically desirable levels. (3 Marks)
3. Banker to government and bank to Commercial Banks. (2 Marks)
4. Managing public debt on behalf of the public or economy. (3 Marks)
5. Managing level of money supply, controlling inflation and stabilizing prices of goods and managing level of money supply, controlling inflation and stabilizing prices of goods and services to realistically acceptable levels. (3 Marks)
6. Discuss the role of Central Bank in safeguarding customer deposits in Commercial banks and as a lender of the last resort. (4 Marks)
7. Elucidate some of the challenges faced by Central Bank in supervising and over sighting the activities of commercial banks in Kenya. (5 Marks)

**QUESTION FOUR (20 MARKS)**

Commercial banks make profits by selling liabilities which they transform into assets to generate income. According to economic survey report of 2014 Kenya has 43 commercial banks.

**Required**

1. Discuss the services provided by Commercial Banks in Kenya in their process of asset transformation for income generation. (4 Marks)
2. Explain some of the factors that commercial banks take into account when pricing (charging interest rates) on their assets (loans) (4 Marks)
3. Distinguish between demand deposits and time deposits. (2 Marks)
4. What reasons can be attributed to the low rate of savings with the commercial banks in Kenya. (3 Marks)
5. Highlight the reasons behind the high tendency to borrow from commercial banks among many Kenyans. (3 Marks)
6. As the body charged with the monetary (money) policy in Kenya, suggest the measures that the Central Bank can take to reduce the savings and the borrowing gaps in (e) above.

(4 Marks)

**QUESTION FIVE (20 MARKS)**

Wanja was recently employed as a nurse with Murang’a County Government and she is at a loss of whether to open a salary account with Kenya Commercial Bank or with Muramanti Sacco or with Faulu Micro Finance Bank for she does not understand the difference between these three financial institutions.

**Required:**

1. Explain to Wanja the difference between Kenya Commercial bank and Faulu Micro finance bank. How different are the two institutions from Muramanti Sacco? (5 Marks)
2. Distinguish between Housing Financing Company and Agricultural Finance Corporation. How different are they from the Higher Education Loans Board? (5 Marks)
3. Highlight the difference between a financial security and a collateral. (2 Marks)
4. Distinguish between commercial banks cash ratio or cash reserve and Credit rationing.

(2 Marks)

1. Highlight the role played by banks and financial institutions in the economic and social development of an economy. (6 Marks)