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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FOURTH YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 17<sup>th</sup> April, 2023  
Time: 11.30am –1.30pm

**KFI 402 - MONEY AND BANKING**

**INSTRUCTIONS TO CANDIDATES**

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**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE (30 MARKS)**

- a) A developing country in West Africa is facing a possible Market failure. The credit markets have been experiencing high levels of Non-Performing Loans to prompt the interventions by Credit Reference Bureaus. In particular, economic down turns have affected most of the borrowers: this could probably explain their troubled loan repayments.

Suppliers of credit are contemplating moving to other markets though the Government is promising to stabilize them with some capital injection if the situation worsens. Most of the lenders are supplying unsecured loans. The situation is not getting any better since the economic growth projections may not be met.

In view of the case above, you are required to;

- i) Explain three roles of the Central bank in stabilizing the situation. (6 marks)
- ii) Describe how Credit Reference Bureaus can be a possible solution to the problems faced by the lenders. (6 marks)
- b) Explain three characteristics of money as a medium of exchange. (6 marks)
- c) Discuss three types of moral hazards in the context of that commercial banking. (6 marks)
- d) Discuss the problem of money laundering in international money and banking. (6 marks)

### **QUESTION TWO (20 MARKS)**

- a) Describe currency hoarding as a money market problem. (4 marks)
- b) Discuss the problem of insider trading in banking. (4 marks)
- c) Explain three functions of commercial banks in Kenya. (6 marks)
- d) Describe the key inputs in determining the lending rates for banks in Kenya taking into account the base lending rate (Central Bank Rate) (6 marks)

### **QUESTION THREE (20 MARKS)**

- a) Discuss three factors that could cause a shift in the US dollar-Kenya shilling exchange rate in Kenya (6 marks)
- b) Using appropriate examples in lending, explain three types of adverse selection in credit markets such as microfinance and banking (6 marks)
- c) Explain monetary policy interventions through Open-Market Operations as a tool used by Central banks in regulating an economy (8 marks)

### **QUESTION FOUR (20 MARKS)**

- a) Describe two situations that could lead to market failure in banking (6 marks)
- b) Explain (in the context of banking) expectations hypothesis as the main theoretical argument explaining exchange rate changes (6 marks)
- c) Describe four problems arising from information asymmetry in money markets. (8 marks)

### **QUESTION FIVE (20 MARKS)**

- a) Discuss three factors that could lead to bank runs in commercial banking (6 marks)
- b) Discuss four financial risk management practices that money and banking sector institutions could adopt to hedge credit/default risk. (8 marks)
- c) Describe three ways in which political risk could impact liquidity of an international bank operating in a country which experiences frequent changes in government. (6 marks)