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**University Examinations 2016/2017**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR

 OF COMMERCE AND BACHELOR OF ECONOMICS

 **BEC3303: MONEY & BANKING**

 **DATE: DECEMBER 2016 TIME: 2HOURS**

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

**QUESTION ONE (30 MARKS)**

The banking amendment bill 2015 provided a mechanism for regulation of bank through the introduction of ceilings. The bill put a cap on the rate of interest charged for loans and a minimum net of interest that such institutions must pay on deposit held

1. Explain two theories that determine interest rate that might have been considered by the drafters of this bill. (8 marks)
2. Using the loanable fund theory explain how each of the following events will affect the supply and demand for loan
3. War in a country (2 marks)
4. Invention of new machines for production (2 marks)

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1. Critically analyse this bill citing to advantages and disadvantages to Kenyans (6 marks)
2. Discuss the possible actions by financial institution to counter the effect of this bill on their profitability (8 marks)
3. Discus factors that determine credit scoring of banks customers (4 marks)

**QUESTION TWO (20 MARKS)**

1. Discuss the impact of inflation in an economy (10 marks)
2. Describe monetary policy (6 marks)
3. Compare and contrast the barter system of trade and monetary system of trade

(4 marks)

**QUESTION THREE (20 MARKS)**

1. Government face three different regulations options with different consequences for financial systems. Explain the following types of regulation of financial systems
2. Self regulation (4 marks)
3. Institutional regulation (4 marks)
4. Functional regulation (6 marks)
5. Explain how liquidity risk can lead to a commercial bank’s failure

(6 marks)

**QUESTION FOUR (20 MARKS)**

1. When a Central Bank introduces restrictions on residential mortgage bigger deposits requirements for mortgage loans and other limits on borrowing

State and explain five economic impacts of these restrictions on property market

 (10marks)

1. Distinguish between primitive securities and financial derivatives (5 marks)
2. Discuss five causes of bankruptcy crisis (5 marks)

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**QUESTION FIVE (20 MARKS)**

One of a lending officers major task to analyze a customers credit worthness. This is to determine a customers default risk premium. Credit analysis determines whether a loan should be granted and to which credit risk category a customer should be assigned. It is illegal for banks to discriminate on the basis of sex, race, religion or marital status. Only economic factors can be considered

1. Explain five types of analysis that can be done to quantify a customers default risk premium (10 marks)
2. Explain five off balance sheet activities used by commercial banks to generate income

 (10 marks)

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