



KABARAK

UNIVERSITY

**UNIVERSITY EXAMINATIONS
2010/2011 ACADEMIC YEAR**

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: FNCE 313

COURSE TITLE: MONEY AND BANKING

STREAM: Y3S1

DAY: THURSDAY

TIME: 2.00 – 4.00 P.M

DATE: 16/12/2010

INSTRUCTIONS:

1. Answer question **ONE** and any other **TWO** questions
2. Write your registration number clearly, be neat, brief and to the point
3. Do not write anything on the question paper

PLEASE TURNOVER

Question 01**(Total marks 30)**

- a) Describe any 6 functions of money. **(6 marks)**
- b) With the assistance of suitable illustrations distinguish between the following:
- i. Actual money and money of account
 - ii. Legal tender money and optional money. **(8 marks)**
- c) What do you understand by the phrase, “Value of Money”? Describe it in respect to the price-level. **(6 marks)**
- d) Discuss any 5 roles of commercial banks. **(10 marks)**

Question 02**(Total marks 30)**

- a) Copy and complete the table below in respect the creation of commercial bank money by a successive 10 re-lending process of an initial reserve deposit of 100 Kenya shillings at 20 percent reserve rate.

(10 marks)

Individual bank	Amount deposited	Amount loaned out	Reserves
A			
B			
C			
D			
E			
F			
G			
H			
I			
J			
K			
			total reserves:
	commercial bank money created + central bank money:	commercial bank money created:	total reserves + last amount deposited:

b) Use the data in question 02 (a) to estimate and describe a money multiplier. (5 marks)

c) Describe any 5 types of banks. (5 marks)

Question 03 (Total Marks 20)

a) Discuss any 5 monetary policy tools used in the Kenyan Economy. (10 marks)

b) Describe monetary policy actions in respect to demand –pull and cost-push inflations. (10 marks)

Question 04 (Total marks 20)

a) In respect to J.M Keynes, discuss the motives of acquiring cash balances. (10 marks)

b) The transaction and precautionary demand for money is income-determined while speculative is income-determining. Explain. (10 marks)

Question 05 (Total marks 20)

a) Describe the following terminologies as used in money and banking:

i. The Quantity Theory of Money (2 marks)

ii. The monetary base (2 marks)

b) From the point of view of a monetarist, discuss the historical trend of the Eastern African Central Banking System since 1919 to early 1966. (6 marks)

c) In 1988 the capital requirements established by the Bank for International Settlements (BIS) in Basel, and later adopted by the 10 member states set the minimum capital as specified as a percentage of the risk-weighted assets of the bank as shown in the table below:

Asset	Risk Weight
Cash and equivalents	0
Government securities	0
Interbank loans	0.2
Mortgage loans	0.5
Ordinary loans	1.0
Standby letters of credit	1.0

The BIS rules set requirements on two categories of capital, *Tier 1 capital* and *Total capital*:

Tier 1 capital is the book value of its shares plus retained earnings.

Tier 2 capital is loan-loss reserves plus subordinated debt. **

Total capital is the sum of Tier 1 and Tier 2 capital.

Tier 1 capital must be at least 4% of total risk-weighted assets.

Total capital must be at least 8% of total risk-weighted assets.

**Subordinated debt is long term debt that, in case of insolvency, is paid off only after depositors and other creditors have been paid. This can therefore, be used like equity to provide creditors with some protection against insolvency.

Given are the Set Kotes Bank categories of Assets:

Asset	Amount in Kenya shillings
Cash and equivalents	40
Government securities	80
Interbank loans	100
Mortgage loans	200
Ordinary loans	300
Standby letters of credit	80

Required

Estimate:

The total risk-weighted assets and give pieces of advice to the bank management on the size of T 1 capital and the least size of total capital for the bank. **(4 marks)**

d) Citing examples in Kenyan financial system, describe an Islamic banking system. **(6 marks)**

(Total 20 marks)