

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2015/2016**

**THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBF 2301: FINANCIAL INSTITUTIONS AND MARKET**

**DATE: DECEMBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE**

Tumaini is a company that was formed by investors from different

parts of the world. Its key objective is to avail cheap funds to groups

and individuals in the developing world with the hope of assisting them

operate businesses that can improve their standards of life. The shareholders

of the company are also considering the possibility of establishing a financial institution in future after understanding the main challenges that are faced by

financial institutions in Kenya and establishing mechanisms that can help deal

with these challenges.

The company is also aware that in the last three decades, Kenya has

witnessed the collapse of some financial institutions and would therefore

wish to understand some of the causes before operating a financial institution

for now, the company has decided to enter the Kenyan market as a community

based development institutions and all the necessary approvals have been

obtained. The company is yet to make a decision on how to make these funds available to the qualified beneficiaries and is considering the following two options:

1. To partner with some of the existing and established financial

Institutions and let these institutions advance the funds on

behalf of the company.

1. To advance funds directly to the beneficiaries through

Individual written agreements that will be made between

the beneficiaries and the company.

The management is of the opinion that as a person with finance knowledge,

you are in a position to advice the company and hence assist the company

in making decisions on issues and concerns pointed above.

Required:

1. Advice the company on the advantages and disadvantages of

the TWO options stated above. [12 marks]

1. Giving examples, identify and explain to the company some of the

challenges that are faced by financial institutions in Kenya. [10 marks]

1. Highlight to the company some of the factors that have in the past

contributed to the collapse of financial institutions in the Kenyan

financial sector. [8 marks]

**QUESTION TWO**

There are advantages and disadvantages that can be obtained by

ensuring that a Government of a nation is a major shareholder in

every financial institution in the economy.

Discuss this using Kenyan economy as example. [20 marks]

**QUESTION THREE**

1. Explain the advantages of floatation in respect to:
2. Existing shareholders [8 marks]
3. The Company [8 marks]
4. Explain any TWO barriers to cross boarder listing. [4 marks]

**QUESTION FOUR**

1. Explain any THREE challenges or concerns that have been raised

in respect to the adoption of Credit Referencing Bureaus (CRBs)

in the Kenyan Financial sector. [6 marks]

1. Explain any one role that is played by each of the following in

the Kenyan financial sector:

1. Pension Fund [2 marks]
2. Insurance companies [2 marks]
3. Micro Finance Institutions [2 marks]
4. Central Bank [2 marks]
5. “Chama” and Informed Investment groups [2 marks]

1. Explain any TWO mechanisms that can be taken to minimize

collapse of financial institutions. [4 marks]

**QUESTION FIVE**

1. Explain any THREE forms of Financial Integration. [6 marks]
2. With respect to financial institutions, explain the meaning of

‘loan syndication’ and explain its importance in the financial sector. [4 marks]

1. Explain any THREE challenges a concern that have been raised in

respect to “deposit Protection Fund” in the Kenyan financial sector. [6 marks]

d) Explain some of the mechanisms that insurance companies apply

in order to manage.

1. Adverse selection [2 marks]

1. Moral Hazard [2 marks]