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**UNIVERSITY OF KABIANGA**  
**UNIVERSITY EXAMINATIONS**  
**2016/2017 ACADEMIC YEAR**  
**SUPPLEMENTARY/SPECIAL EXAMINATION**  
  
**FOR THE DEGREE OF**  
**BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE:     BBM 311**

**COURSE TITLE:    BANKING THEORY AND PRACTICE**

**DATE: 12<sup>TH</sup> SEPTEMBER, 2017     TIME: 8.00 A.M. – 11.00 A.M.**

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**INSTRUCTIONS TO CANDIDATES**

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**UNIVERSITY OF KABIANGA**

**SCHOOL OF BUSINESS AND ECONOMICS**

**2016/2017 SUPPLEMENTARY EXAMINATION PAPER**

**BBM 311: BANKING THEORY AND PRACTICE**

**Answer Question ONE and ANY OTHER THREE QUESTIONS**

**QUESTION ONE**

- a.) Distinguish between balance of trade and balance of payments and explain some of the factors that affect these balances. (6 Marks)
- b.) Explain any five monetary policy instruments that are used by the central bank to regulate the monetary environment of the country. (5 Marks)
- c.) There has been a recent upsurge of financial distress experienced in most banks here in Kenya. This has made many banks to focus on asset and liability management. Discuss some of the core functions of Asset and Liability Management. (4 Marks)
- d.) Discuss the five major functions of commercial banks. (5 marks)
- e.) Describe the main objectives of fiscal policy. (5 Marks)

**QUESTION TWO**

- a.) Explain the reasons why despite having confidence in monetary policies, they have not been effective especially for the developing countries. (10 Marks)
- b.) Explain any five functions of money. (5 Marks)

**QUESTION THREE**

- a.) Explain any five risks that are peculiar to the banking sector. (10 Marks)
- b.) Explain the liquidity trap. (5 marks))

**QUESTION FOUR**

- a.) Many theories have been advanced to explain money demand. Discuss the differences in the classical and Keynesian liquidity preference theories of money demand. (10 marks)
- b.) Explain some of the challenges of barter trade that prompted the development of money as a legal tender. (5 Marks)

### **QUESTION FIVE**

- a.) Explain internet banking and outline the advantages and disadvantages of using internet banking. (10 Marks)
- b.) Explain any five ways how a fundamental disequilibrium in the economy can be eliminated. (5 Marks)