



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 310: MANAGEMENT OF FINANCIAL INSTITUTIONS

DATE: 25/3/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer question one and any other two questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the following types of pension fund benefits (8 marks)
- b) Explain any two three monetary regulatory tools used by the government (6 marks)
- c) Characterize the risk exposures of the following financial institution transactions (4 marks)
 - i. A bank finances a Kshs. 10M six year fixed rate commercial loan by selling one year certificate of deposit
 - ii. An insurance company invests its policy premiums in a long term municipal bond portfolio
 - iii. A Japanese bank acquires a Kenyan bank to facilitate clearing operations
 - iv. A bond dealer uses his own equity to buy Kenyan debt on the less developed countries (L D C) market.
- d) The reform of the pension system in Kenya to date has had a positive impact on the occupational Pension sector, but a more limited impact in terms of addressing the key weakness of the current System of poor overall levels of coverage and benefit adequacy. Explain the key motivations for Further reform (8 marks)
- e) Explain any four parties involved in a securitization transaction (4 marks)

QUESTION TWO (20 MARKS)

- a) Explain the following financial risks
 - i. Market risk (2 marks)
 - ii. Strategic risk (2 marks)
 - iii. Reputational (2 marks)
- b) Highlight ten factors to consider when accessing the bank's earnings (5 marks)
- c) State five objectives of bank regulation (6 marks)
- d) State three special functions of financial institutions (3 marks)

QUESTION THREE (20 MARKS)

- a) Financial institutions perform the essential function of channeling funds from those with surplus funds to those with shortage of funds. In the context of the above statement, identify and categorize the different types of financial institutions operating in our systems. (10 marks)
- b) Explain any five monetary regulatory tools used by the government (10 marks)

QUESTION FOUR (20 MARKS)

- a) Commercial banks represent the largest group of depository institutions measured by asset size. They perform functions similar to those of savings institutions and credit unions. In reference to the above statements, discuss the agency functions of commercial banks (10 marks)
- b) State five functions of investment banking (5 marks)
- c) Give the similarities and differences between pension funds benefit and the provident fund benefits (5 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the following general areas of financial institution specialness (6 marks)
 - i. Liquidity and price risk
 - ii. Transmission of monetary policy
 - iii. Maturity intermediation
- b) Explain the following types of deposits (4 marks)
 - i. Cash certificates
 - ii. Recurring deposits
- c) What benefits would an investment banker obtain by getting into the investment banking business? (4 marks)
- d) State, explain, giving examples in each case the two forms of financial intermediation (6 marks)