



**Strathmore**  
UNIVERSITY

**STRATHMORE BUSINESS SCHOOL**  
MASTER OF SCIENCE IN DEVELOPMENT FINANCE  
END OF SEMESTER EXAMINATION  
**MDF 8204: FINANCIAL SERVICES REGULATION**

**Date:** Wednesday 13<sup>th</sup> April 2022

**Time:** 3 Hours

---

**Instructions**

**1 Answer question one and two other questions.**

1. Answer All Questions in Part A and any TWO Questions in Part B.
2. Marks will be awarded on the basis on logical reasoning, clarity, and a clear exposition of your arguments.

**Part A: This Question is Compulsory**

**Question 1 (40 marks)**

- (a) In his paper titled “Libertarian Paternalism Is Not an Oxymoron”, Sunstein (2003) argues that the idea of libertarian paternalism is both possible and desirable for the private and public institutions to influence behaviour while also respecting freedom of choice.
  - (i) Using an example in the financial services sector, highlight the difference between paternalism and libertarianism in regulation. **(8 marks)**
  - (ii) Why do governments advocate for paternalistic regulation in the financial services? **(8 marks)**
  - (iii) Using capture theory, explain how regulation can be applied to avert undesirable behaviour and conduct in financial services. **(8 marks)**
- (b) Giving relevant examples, argue a case for and against regulation in microfinance institutions. **(8 marks)**
- (c) Examine the peculiarities of systematically important financial institutions, explaining why these institutions must be regulated closely. **(8 marks)**

**Question 2 (20 marks)**

- (a) Outline five objectives of insurance regulation. **(10 marks)**
- (b) Discuss how the developments in capital market products and services have shaped the regulatory framework over the years. **(10 marks)**

**Question 3 (20 marks)**

- (a) Money laundering is classified as a predicate crime. Using a relevant example, explain. **(5 marks)**
- (b) Study the mini-case below and answer the question that follows:

Heri Ltd. is a company that operates a high-end restaurant in Nairobi's upmarket area. The company's revenue, which is almost entirely cash-based, was recognised at \$5.5 million in the draft financial statements for year ended 31<sup>st</sup> December 2021. However, a close scrutiny of the accounting system shows that till receipts for cash paid by customers amount to only \$3.5 million. Upon questioning the Finance Director, Asha Myles about the discrepancy, she said that Jack Maingi, the company's owner, deals with cash receipts and posts through journals dealing with cash and revenue. Asha asked Jack the reason for these journals, but he refused to give an explanation. In a later transaction, a payment of \$2 million was made by electronic transfer from the company's bank account to an overseas financial institution. The bank statement showed that the transfer was authorised by Jack, but no other documentation regarding the transfer was available. Upon asking Jack about the source of cash receipts and the reason for the electronic transfers, Jack would not give answers and given his domineering figure, he became quite aggressive.

**Required:** Describe the circumstances highlighted in the mini-case and how they can be dealt with. **(15 marks)**

**Question 4 (20 marks)**

- (a) Outline FIVE major causes of systemic banking crises and outline the policy and responses often undertaken to deal with the crises **(10 marks)**
- (b) Highlight the salient differences between Shariah compliant and conventional financial services. **(10 marks)**

**Question 5 (20 marks)**

Write short notes, including the regulatory considerations and/or implications of the following:

- (a) Demutualisation **(5 marks)**
- (b) Deregulation **(5 marks)**
- (c) De-risking **(5 marks)**
- (d) Demonetization **(5 marks)**