



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION

MDF 8205: FINANCIAL INSTITUTIONS & ECONOMIC GROWTH

Date: Tuesday 9th April 2024

Time: 3 Hours

Instructions

1. This examination consists of **FOUR** questions.
2. Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

Question 1 (Compulsory) (40 Marks)

Monetary policies usually address domestic problems, yet central banks worldwide are faced with global problems such as the effects of global politics/conflict among countries, rising use of digital currencies and international policies affecting exchange rates and functioning of financial markets. Researchers have urged central banks to adopt non-conventional monetary policy tools to deal with the ever-emerging international issues.

Required:

- a. Describe three different tools/policies that the central bank in your country can adopt to deal with.
 - i. Rising use of digital currencies such as Cryptos which have the potential of disrupting monetary policy. **(6marks)**
 - ii. Global exchange rate volatility affecting the value of local currency. **(6marks)**
- b. In addition to global challenges, policy makers in Kenya face several domestic challenges which affect both monetary and fiscal policies. These challenges include reduced lending to the SME sector due to the high credit risks that SMEs pose, lower than budgeted target tax revenues every year, high public expenditures due to fiscal indiscipline, low productivity in both the manufacturing and agricultural sectors, a segmented interbank market among other problems.
 - i. Discuss five ways in which fiscal policy affects monetary policy. **(10 marks)**

- ii. Suggest five policies that the government of Kenya can introduce to deal with the domestic challenges raised in (b) above. **(10marks)**

- c. Monetary policy committees [MPC] find it difficult to communicate their countries monetary policies to the public. For example, in Kenya, the chairman of the MPC usually calls a press conference and informs the media houses of the decision of the committee, the press conference and the written decision is then posted on the Central Bank website.
 - i. Do you think the MPC in Kenya effectively communicates its decision to the public? Give a least two reasons for your answer. **(4marks)**
 - ii. Suggest two reasons other ways that the MPC can use to communicate its decisions. **(4marks)**

Question 2 (20 Marks)

Several scholars have criticized the Bretton Woods institutions for imposing harsh conditionalities when lending to countries in the African continent. Others have instead blamed the African governments for over relying on the International Monetary Fund (IMF) for their funding needs.

- i. Briefly define the term conditionalities as used in IMF lending **(2marks)**
- ii. Discuss how conditionalities have affected the health and education sectors in your country. **(8marks)**
- iii. Discuss the strategies that countries in the African continent can adopt to make them less reliant on IMF funding. **(4marks)**
- iv. Apart from conditionalities what other criticisms have been labelled against the IMF? Do you think the criticism is justified? **(6marks)**

Question 3 (20 Marks)

In 2016, the Capital Markets Authority released its master plan which envisioned at least four new listings on the NSE every year; fast track to the year 2024 and there has been a drought of eight years without any listing on the NSE. In the same period the Johannesburg stock exchange issued 18 initial public offerings.

- a. From the experience of the successful bourses like South Africa and Egypt, how can we increase the number of new listings on the NSE. **(10marks)**

Africa's insurance industry is largely underdeveloped, and insurance penetration levels are very low compared to global standards. However, the large numbers of un(der)insured and the potential to speed up access to them make the possibility of insurance growth in Africa strong.

- b. Discuss the unique trends occurring in Africa and how the insurance industry can exploit the same to expand. **(10marks)**

Question 4 (20 Mark)

- a. Dr. David Ndi, the economic advisor to the government of Kenya and a leading economist in the African continent has in many forums advocated for agricultural led economic models for the African continent instead of infrastructure led economic models as the best economic models to pursue by African governments.
- i. Do you agree with Kenya's economic advisor? Give reasons for your answer. **(6marks)**
- ii. Describe one alternative growth model suitable for SSA countries, apart from the two models stated above. Give at least two reasons for selecting your model. **(4marks)**
- b. You want to carry out a study to examine the relationship between financial development and economic growth. You intend to use GDP as a measure of growth.
- i. Highlight four disadvantages of using GDP as a of measure economic growth. **(4marks)**
- ii. Discuss three other measures that you would use in addition to GDP to strengthen your measure of growth, be sure to discuss how you will estimate the variables identified. **(6marks)**