



**STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
ENDE OF SEMESTER EXAMINATION
BFS 3201: FINANCIAL INCLUSION AND DEVELOPMENT**

Date: 6th December, 2022

TIME :1hour

Instructions:

- Answer **Question One** and any other **TWO** Questions

QUESTION ONE (30 MARKS)

- a) Existing empirical work on financial sector development has evaluated the relationship between the financial sector and economic development. Giving examples, discuss five channels through which financial systems can increase economic growth. **(10 Marks)**
- b) Liquidity providers, just like borrowers and lenders, have needs that must be satisfied in order to attract them. Critically evaluate three critical market conditions necessary to ensure market liquidity **(6 Marks)**
- c) Beyond establishing the rule of law, governments must also support market development through regulation and supervision. Discuss three reasons why public regulation of financial markets is important **(6 Marks)**
- d) Critically evaluate the relationship between the financial structure and economic outcomes of a country **(4 Marks)**
- e) Measurement of financial inclusion has undergone a transformation from single indicator measurement to multi-dimensional financial inclusion index. Differentiate parametric and non-parametric approaches to financial inclusion measurement. **(4 Marks)**

QUESTION TWO

(20 MARKS)

Read the case Mpesa and the Market Led Approach to Financial Inclusion by Scott Burns and use it to answer the following questions

- a) What is market-led financial inclusion and how different is it from the traditional approach to financial inclusion **(4 Marks)**

- b) From the case what are some of the reasons cited for the high rates of financial inclusion in Kenya? Critically evaluate those reasons **(8 Marks)**
- c) The government plays a significant role in promoting financial inclusion and development. Critically evaluate how government regulation has enabled financial inclusion in sub-Saharan Africa **(4 Marks)**
- d) From the case, what are the key aspects of financial inclusion **(4 Marks)**

QUESTION THREE (20 MARKS)

- a) Financial structure is the composition and relative importance of various financial institutional arrangements in a financial system. What is the difference between a bank-based and a financial-based structure? What is the role and limitations associated with each of the systems **(10 Marks)**
- b) A deviation of the financial structure from its optimal path will lead to low efficiency of the financial system and hinder economic development. A serious mismatch between the financial structure and industrial structure may also cause financial crises. Discuss ways does a weak financial structure contribute to a financial crisis **(10 Marks)**

QUESTION FOUR (20 MARKS)

- a) Repos are some of the instruments that can be introduced in the financial markets to bridge the risk gap and enhance bond market development. Discuss two effects of repos on governments securities markets and two issues associated with Repos **(8 Marks)**
- b) Giving examples, Discuss six reasons why companies would opt to go public through the stock market listing **(12 Marks)**

QUESTION FIVE (20 MARKS)

- a) The nexus between financial inclusion and economic growth has received considerable attention in empirical research. Discuss the nexus between financial inclusion and economic growth **(4 Marks)**
- b) Financial sector regulation is key if a country has to achieve financial stability.
 - i. Discuss arguments for and against financial sector regulation **(10 Marks)**
 - ii. The regulators are classified as both the helping hand and the invisible hand, Critically discuss the helping hand of the regulator **(6 Marks)**