



STRATHMORE BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
BFS 1201: MONETARY AND FINANCIAL SYSTEMS
SPECIAL EXAM

DATE: Fri, 19th April 2024

TIME: 15:30 – 17:30

INSTRUCTIONS:

ANSWER QUESTION 1 AND OTHER 2 QUESTIONS

QUESTION ONE

a).

1. Which of the following is not a function of Central Bank?
 - (a) Enjoys monopoly of note issue
 - (b) Acts as the banker's bank
 - (c) Creation of credit
 - (d) Lender of the last resort
2. Which of the following is a qualitative method of credit control of a central bank?
 - (a) Bank rate
 - (b) Open market operation
 - (c) Rationing of Credit
 - (d) All of the above
3. Open Market Operation is
 - (a) Buying and selling of government securities
 - (b) Sale of government securities
 - (c) Buying and selling of government cheques
 - (d) All of the above
4. The term bank liquidity implies
 - (a) Management of cash
 - (b) Creation of credit
 - (c) The capacity of the bank to give cash on demand in exchange
 - (d) All of the above

5. What is known as the most profitable asset of a commercial bank?
 - (a) Investment at call and short-notice
 - (b) Loans and advances to its customers
 - (c) Accepting deposits
 - (d) None of the above
6. The fundamental function of a commercial bank is
 - (a) Acceptance of deposits
 - (b) Advancing loans
 - (c) Issuing bank draft
 - (d) Creating credit
7. Which of the following is not a function of commercial bank?
 - (a) Accepting deposits
 - (b) Advancing loans
 - (c) Creating credit
 - (d) Printing bank notes
8. Inflation is a situation when
 - (a) Prices of some goods rise
 - (b) General price level rises continuously
 - (c) Prices double every year
 - (d) Prices rise and fall
9. An inflation caused by an enhanced wage of labour is
 - (a) Demand-pull inflation
 - (b) Cost-push inflation
 - (c) Hyperinflation
 - (d) Stagflation
10. Inflation in under-developed country is basically caused by
 - (a) Mass poverty
 - (b) Less production
 - (c) Lack of technical know-how
 - (d) Market imperfection
11. Inflation can be controlled by applying:
 - (a) Monetary and fiscal policies
 - (b) Monetary and labour policy
 - (c) Fiscal and Commercial Policies
 - (d) All of the above
12. During inflation
 - (a) Lenders lose, borrowers gain

- (b) Borrowers lose, lenders gain
- (c) Borrowers and lenders both lose
- (d) All sections of the society gain

13. Which people are most likely to gain during inflation?

- (a) Those living on pension
- (b) Those living on their savings
- (c) Those who are repaying borrowed money
- (d) Those who have lent money

14. Inflation leads to

- (a) Distribution of income equal
- (b) Distribution of income unequal
- (c) No effect on distribution of income
- (d) Affects only industrial sector

15. The most important feature of money is

- (a) General acceptability
- (b) Convertibility into gold
- (c) Store of value
- (d) Medium of exchange

16. Which property the paper money does not possess:

- (a) Acceptability
- (b) Divisibility
- (c) Durability
- (d) Portability

17. In the equation $MV = PY$, V represents

- (a) Value of money
- (b) Velocity of circulation of money
- (c) Variation of national income
- (d) All of the above

18. In the equation $MV = PY$, M represents

- (a) Money supply
- (b) Money demand
- (c) Maximum output
- (d) Minimum output

19. According to Keynes, inflationary gap is caused by

- (a) Excess supply
- (b) Excess demand
- (c) Deficiency of demand
- (d) Deficiency of supply

20. Stagflation implies a situation of
- a. High inflation and high unemployment
 - b. Low unemployment and low inflation
 - c. High inflation and low unemployment
 - d. Low inflation and high unemployment

(20 marks)

- (b) Explain the causes of illicit financial flows in a country

(10 marks)
(Total 30 marks)

QUESTION TWO

- (a) Explain the monetary tools that central bank can use to stabilize the economy. **(10 marks)**

- (b) Describe the reasons for high liquidity preference in LDC'S. **(10 marks)**
(Total 20 marks)

QUESTION THREE

- (a) Explain the differences between commercial banks and development banks. **(10 marks)**

- (b) Explain the factors that limit credit creation by commercial banks **(10 marks)**

(Total 20 marks)

QUESTION FOUR

- (a) Describe the principles of commercial banking **(8 marks)**

- (b) The rates of return and risks for 3 firms were as follows:

Firm	return	std dev	beta	risk free rate
A	30%	32%	2.3	14%
B	26%	36%	2.5	14%
C	24%	22%	1.6	14%

Required: rank the 3 firms based on the Sharpe and Treynor's index and comment on under or over performance **(6marks)**

(b) Distinguish between defined benefits plans and defined contribution plans **(2 marks)**

(c) A defined benefit scheme promised to provide sh.15 million to an employee upon retirement 20 years from the date of commencement of contributions to the scheme on 1/4/00. assuming a constant interest rate of 10%

Required: determine the required annual contributions **(2 marks)**

(d) Suppose an employer contributes sh.100,000 per annum to a pension plan for a period of 10 years at a constant interest rate of 12.5%

Required: determine the promised benefit **(2 marks)**

(Total 20 marks)

QUESTION FIVE

(a) On 1st January 2023, ABC ltd issued 1 million corporate term bonds of Ksh.100 each whose coupon or stated interest of 5% payable annually and yield rate of 6% while the issue period was 3 years

Required: journal entries and financial statements extracts of ABC ltd **(10 marks)**

5 (b) On 1st January 2019, KMRC ltd issued 1 million serial bonds of Ksh.100 each whose coupon or stated interest of 12% payable annually and yield rate of 10% while the issue period was 3 years

Required: compute the present value of the serial bonds and the annual interest expense

(10 marks)

(Total 20 marks)