STRATHMORE BUSINESS SCHOOL

MASTER OF SCIENCE IN DEVELOPMENT FINANCE

END OF SEMESTER EXAMINATION

MDF 8205: FINANCIAL INSTITUTIONS AND ECONOMIC GROWTH

DATE: Wednesday, 8th April 2026 **TIME:** 3 Hours

INSTRUCTIONS

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

QUESTION ONE (Compulsory) (50 MARKS)

a. Highlight **FOUR** non-financial drivers of inflation in Kenya **[4 Marks]**

b. The Central Bank of Kenya (CBK) has adopted inflation targeting as its monetary policy framework. To support the monetary policy decisions the Kenya National Bureau of Statistics will publish both headline and core inflation figures.

Required:

i. State **THREE** reasons why the publication of core inflation figures is important for policy makers? **[6Marks]**

ii. Discuss **FOUR** benefits and **FOUR** challenges to the CBK of adopting the inflation targeting monetary framework **[16 Marks]**

c. Kenya's pension industry is largely underdeveloped, with low penetration levels compared to global standards. The pension coverage is even lower among informal sector players. However, the large and growing numbers of potential workers make the possibility of growth strong.

Required:

i. Discuss **FIVE** unique trends occurring in Africa which the pension industry can exploit to expand this sector. **[10Marks]**

ii. Discuss **SEVEN** strategies that Kenya can use to increase the penetration of pension coverage among the informal sector Workers? **[14 Marks]**

QUESTION TWO (25MARKS)

The Government of Kenya (GOK) recently shifted its strategy of raising funds for infrastructure development from reliance on taxes and public debt to other methods of raising the required finance.

a) Explain **FIVE** non-tax methods used by the GOK to raise funds for infrastructure **[10 Marks]**

b) Some of the suggested methods have faced criticisms from civil society and professional bodies like ICPAK. Explain **FIVE** concerns raised by various stakeholders. **[15 Marks]**

QUESTION THREE (25MARKS)

a) In the last two years several countries such as Kenya, Argentina and Sudan have witnessed riots and protests by their citizens against the International Monetary Fund (IMF). Are these uprisings against the IMF justified? Discuss. **[15 Marks]**

b) Highlight **FIVE** strategies that the African countries can use to reduce overreliance on IMF funding. **[10 Marks]**

QUESTION FOUR (25MARKS)

Kenya has experienced a tremendous growth in capital raised through private equity. In contrast there has been no listing of new companies on the bourse for the last five years

a. Explain **FIVE** ways Kenya can deepen and expand its stock exchange? **[10 Marks]**

b. You want to carry out a study to examine the relationship between financial development and economic growth. Similar studies have used Gross Domestic Product (GDP) as a measure of growth; however, GDP has several weaknesses and you may want to explore other alternative measures of growth.

   i. Highlight **FIVE** limitations of using GDP as a measure of economic growth. **[5 Marks]**

   ii. Highlight **TWO** other measures that you would use in addition to GDP to strengthen your measure of growth. **[2 Marks]**

c. You also wish to develop measures of financial development which are unique to your country

   i. Suggest **FOUR** that you would use to proxy financial development **[4 Marks]**

   ii. Describe **FOUR** limitations, you will likely encounter when carrying out such a study? **[4 Marks]**