



**STRATHMORE BUSINESS SCHOOL**  
**BACHELOR OF COMMERCE**  
**END-OF-SEMESTER EXAMINATION**  
**BFS 3201: FINANCIAL INCLUSION AND DEVELOPMENT**

**DATE:** Monday, 9<sup>th</sup> December 2024

**TIME:** 15:30 – 17:30

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE**

**30 MARKS**

**Read the case on M-PESA AND THE 'MARKET-LED' APPROACH TO FINANCIAL INCLUSION**

**Required;**

- a) What are the key issues related to financial sector development? Provide examples from the case to illustrate your point. **(8 Marks)**
- b) Giving examples from the case, critically evaluate **THREE** financial inclusion theories applied **(6 Marks)**
- c) There are differing views on the relationship between financial inclusion and economic growth. Using examples from the case, discuss the perspective taken by the author. **(4 Marks)**
- d) The author seems to advocate for a more inclusive financial sector by having higher levels of financial inclusion. Is the author entirely, right? Justify your answer. **(6 Marks)**
- e) Using examples from the case, discuss how the government's 'invisible hand' and 'helping hand' were evident in the case. **(6 Marks)**

**QUESTION TWO**

**(20 Marks)**

- a) Critically evaluate **FIVE** channels through financial systems that can foster economic development **(10 Marks)**
- b) Liquidity providers are some of the key participants in the financial markets. They have needs that must be satisfied to attract them. Evaluate three characteristics of instruments that are essential for supporting liquidity providers **(6 Marks)**
- c) Discuss how multilateral agreements and financial innovation drive regulatory reforms **(4 Marks)**

**QUESTION THREE****(20 Marks)**

Two countries in the East African Region have recently gained independence and are now in the initial stages of building their financial system. They have hired you as an advisor on how well they can work on their financial structure. Country A seems to be drawn to a bank-based financial structure while country B seems to be drawn to a market-based financial structure.

**Required**

Prepare a report for the boards of central banks in the respective countries. The report should cover the following: the meaning of bank-based and market-based financial structures, a comparison between the two systems, the different views on financial structure and the role of the government in each system.

**QUESTION FOUR****20 Marks**

- a) In the early 2000s, Kenya's financial sector was underdeveloped, with low levels of financial inclusion, limited access to credit, and a banking system that primarily served a section of the population. The rural population and small businesses faced significant barriers to accessing financial services, limiting economic growth and perpetuating poverty. Drawing examples from the short case and any other part of the world, evaluate FIVE problem areas in financial sector development **(10 Marks)**
- b) Giving relevant examples, evaluate how macroeconomic, financial markets, legal, and institutional preconditions influence capital market development in a country.

**(10 Marks)****QUESTION FIVE****20 Marks**

The 2008 global financial crisis exposed major vulnerabilities in the global financial system, largely due to inadequate regulation of complex financial products, excessive risk-taking by financial institutions, and insufficient oversight of key market players. In response, governments across the globe/led by the United States implemented comprehensive regulatory reforms aimed at restoring stability and preventing future crises. Required

- a) Discuss the arguments for and against regulation for both financial and non-financial sectors **(14 Marks)**
- b) Evaluate the essential features of the rule of law in financial markets. **(6 Marks)**