



**STRATHMORE BUSINESS SCHOOL**  
**BACHELOR OF FINANCIAL SERVICES**  
**END OF SEMESTER EXAMINATION**  
**BFS 1101: INTRODUCTION TO FINANCIAL SERVICES**

**Date:** Wednesday, 16<sup>th</sup> November 2022

**Time:** 2 Hours

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**Instructions:**

Answer Question ONE (COMPULSORY) and any other TWO questions.

**QUESTION 1**

Kenya's financial system is relatively developed for a country at its income level, and also compared with many other Sub-Saharan African countries. The financial system comprises of numerous commercial banks, non-bank financial institutions, a range of insurance companies and a stock exchange.

***Required:***

- a) Briefly discuss any five roles of the financial system to the economy **(10 marks)**
- b) Highlight five key challenges affecting the financial systems in Kenya **(5 marks)**
- c) Tangaza company, a publicly listed firm wants to raise money by issuing shares. It has approached “Mawazo” an investment banker who has agreed to underwrite the issue on a commitment basis. The investment bank pays the Tangaza company Sh. 21 per share for 100 million shares. The investment banker then sells the shares to the public for Sh. 18 per share. You are required to answer the following questions:
  - i) How much does the Tangaza company receive? What is the price of the share? **(2 marks).**
  - ii) What is the profit/loss to the investment banker “Mawazo”? **(1 mark)**
  - ii) If “Mawazo” can sell the shares for Sh. 24, how much money does the company receive? **(1 mark).** What is the profit of the investment banker “Mawazo”? **(1 mark)**
- d) Assume that instead, the investment banker agrees to underwrite the 100 million shares on a best-effort basis. The investment banker “Mawazo” can sell 86 million shares for Sh. 21 per share, and charge the company Sh. 1.5 per share sold.

- i) How much money does Tangaza company receive? What is the price of the share? **(2 marks)**. What is the profit to the investment banker “Mawazo”? **(1 mark)**
  - ii) If the investment banker “Mawazo” can sell the shares for only Sh. 19.5 per share, how much money does the company receive? **(1 mark)**. What is the profit of the investment banker “Mawazo”? **(1 mark)**
- e) Suppose a mutual fund contains 1,000 shares of Chai Poa LTD currently trading at Sh.37.75; 2,000 shares of Madini Poa LTD currently trading at Sh. 43.70, and 1,500 shares of Gari Safi LTD currently trading at Sh. 46.67. The mutual fund currently has 15,000 shares outstanding held by investors.

**Required:**

- i) Compute the Net Asset Value (NAV) of the fund **(2 marks)**
- ii) If by next month, Chai Poa LTD shares increase to Sh. 45, Madini Poa LTD shares increase to Sh. 48, and Gari Safi LTD shares increase to Sh. 50. Compute the change in net asset value (NAV) if any (assume the same number of shares outstanding). **(1 mark)**
- iii) If 1,000 additional investors buy into the mutual fund at the current NAV value in (ii) above, and the fund manager decides to use these additional funds to buy additional shares in Chai Poa LTD. Compute the change in net asset value (NAV) if any. **(2 marks)**

**(Total: 30 Marks)**

## QUESTION 2

A financial cooperative is a way to structure a financial institution so that it is owned and operated by its members (e.g., a credit union). Control of the cooperative is often democratic, with each member having one vote. These co-ops tend to offer quality service along with competitive rates.

**Required:**

- a) Highlight the roles played by financial cooperatives **(6 marks)**
- b) List and briefly discuss any six co-operatives’ principles **(6 marks)**
- c) Do commercial banks contribute to economic growth and development? Briefly discuss **(8 marks)**

**(Total: 20 Marks)**

## QUESTION 3

Insurance is a means of protection from financial loss, and it is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss in exchange for premium payments.

**Required:**

- a) Describe the two broad classifications of insurances companies and provide at least three examples in each **(6 marks)**
- b) Distinguish between moral hazard and adverse selection using relevant examples **(6 marks)**
- c) List and explain the possible solutions for moral hazard and adverse selections **(8 marks)**

**(Total: 20 Marks)**

**QUESTION 4**

Financial markets refer to an elaborate system of financial institutions and intermediaries and arrangements put in place and developed to facilitate the transfer of funds from surplus economic units (savers) to deficit economic units (investors).

**Required:**

- a) Providing relevant examples, list and explain the two broad divisions of financial markets **(4 marks)**
- b) Differentiate between securities firms and investment banks **(4 marks)**
- c) Describe the services played by securities firms and investment banks **(12 marks)**

**(Total: 20 Marks)**

**QUESTION 5**

- a) Write short notes on the following concepts. Provide examples where possible
  - i) Initial Public Offer (IPO) versus secondary issue **(2 marks)**
  - ii) Public offering versus private offering **(2 marks)**
  - iii) Market making versus position trading **(2 marks)**
  - iv) Long position versus short position **(2 marks)**
  - v) Bullish market versus bearish market **(2 marks)**
- b) List and describe the five main risks which are common in the financial services industry **(10 marks)**

**(Total: 20 Marks)**