KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BAC 826: INTERNATIONAL MONEY AND BANKING

DATE: Monday, 8th May 2017 **TIME: 5.30p.m-8.30p.m**

INSTRUCTIONS:

ANSWER ALL QUESTIONS

Question One (21 marks)

a) Over the centuries money in terms of its physical forms or properties have been diverse. Despite the passage of time, the various forms of money may be found in a country's economy. Using relevant examples from Kenya, explain any six forms of money that are presently used but ordinarily they ought not to be used in to-days financial system. (6 marks)

b) In the Standard Newspaper of 10th January 2017 page 24, it was reported that "the Central Bank of Kenya (CBK) have been supporting the" Zombie Banks" to allow them to operate amidst the turmoil in the market. According to the latest CBK data, the regulator mopped up shs 42 billion from the market and only injected shs 18.6 billion through reverse repos. The regulator uses the reverse repos as a monetary policy tool ----- " From the above captioned news paper report:

i) Explain what "Zombie Banks" are and how they operate when the financial sector is not stable. (4 marks)

ii) How would such banks operate in a stable financial environment? (2 marks)

iii) Explain the meaning of reverse repos as used in the report. (3 marks)

iv) Ordinarily the regulator mops up money during the period of excess supply and injects when there is shortfall in the economy. In the above report mopping up and injection of money happened. Clearly explain how this was possible. (6 marks)

Question Two (15 marks)

In order to strengthen the stability of the banking system, the international financial institutions and Governments developed the Basel Accord in 1988 (that was later renamed Basel I), later the Basel II was initiated and recently the Basel III was developed.

a) Clearly explain the separate forms of the Accords. (9 marks)

b) Explain the areas in Basel II that are defective necessitating Basel III (6 marks)

Question Three (14 marks)

a) Briefly but clearly explain the channels through which monetary policy actions impact the Kenyan economy. (4 marks)

b) Based on the current economic situation, what sorts of monetary policies would you recommend? Defend your answer. (5 marks)

c) What are the economic effects of not restricting interest rates as postulated by the Central Bank of Kenya. (5 marks)

Question Four (10marks)

a) The reasons why banks fail are numerous and often interlinked. Managerial deficiencies are often important and there is a fine line between bad management and fraud. Discuss. (6 marks)

b) In the banking financial regulations, there are those who are for regulated banking sector and there are those who advocate for unregulated banks. Bearing this in mind, what are the main arguments put forward by the free-banks theorists. (4 marks)