



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Fax: 254-20-891084
E-mail: academics@cuea.edu

MAIN EXAMINATION

MAY – AUGUST 2019 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

O DEL PROGRAMME

CBF 311: INTRODUCTION TO BANKING AND FINANCIAL SERVICES

Date: JULY 2019

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) Discuss the advantages to deficit and surplus units of using organized financial markets and financial intermediaries. **(10 marks)**
- b) Discuss the functions of a financial system **(5 marks)**
- c) Explain briefly the difference between deposit-taking and non-deposit-taking intermediaries. Give two examples of each. **(5 marks)**
- d) Distinguish between deficit and surplus units. **(4 marks)**
- e) Distinguish between 'saving' and a 'financial surplus'. **(3 marks)**
- f) Why do people simultaneously hold financial assets and liabilities? **(3 marks)**
- Q2. a) Compare and contrast
(i) the functions and
(ii) the balance sheets of banks and building societies. **(10 marks)**
- b) Why might conflicts arise between some functions of the central bank? **(5 marks)**

- c) Explain what is meant by 'lender of last resort' and show how this role enables the central bank to influence the level of short-term interest rates. **(5 marks)**
- Q3. a) Distinguish between funded and unfunded pension schemes. Would you worry if you were a member of the latter? **(5 marks)**
- b) Why do shares in closed-ended mutual funds often sell for less than the value of their underlying assets? **(5 marks)**
- c) Explain how insurance companies try to deal with the problems of moral hazard and adverse selection. **(5 marks)**
- d) Briefly summarise the key differences between DTIs and NDTIs. **(5 marks)**
- Q4. a) Outline three ways in which the behaviour of the financial system could affect the level of aggregate demand in the economy. **(6 marks)**
- b) If your income and capital account showed that you had made a 'negative net acquisition of financial assets', what would this mean in practice? **(4 marks)**
- c) Why does a company's share price matter in a takeover battle? If you were the financial director of a predator firm, what would you want to happen to your firm's share price? Might you be able to influence it in any way? **(10 marks)**

END