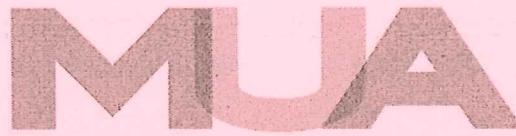


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**POST GRADUATE UNIVERSITY EXAMINATIONS**  
**SCHOOL OF MANAGEMENT AND LEADERSHIP**  
**DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**BFO 506: BANKING AND DEVELOPMENT**

**DATE: 1<sup>ST</sup> DECEMBER, 2023**

**DURATION: 3 HOURS**

**MAXIMUM MARKS: 60**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is **compulsory**.
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided**

**QUESTION ONE**

**Read the Case Study below carefully and answer the questions that follow:**

**FINANCIAL LIBERILIZATION**

Williamson and Mahar (1998, 2) comprehensively outlines financial liberalization as freeing the market and allowing the forces of demand and supply to determine market prices, grants and credit. Johnston and Sundararajan (1999, 2-3) explores this policy process in a broader systemic perspective. They state that financial sector liberalization "can be viewed as a set of operational reforms and policy measures designed to deregulate and transform the financial system and its structure with the view to achieving a liberalized market-oriented system within an appropriate regulatory framework."

Financial liberalization refers to measures directed at diluting or dismantling regulatory control over the institutional structures, instruments and activities of agents in different segments of the financial sector. These measures can relate to internal or external regulations (Chandrasekhar, 2004). Financial liberalization also encompasses the following concepts: Trade Liberalization which refers to the removal or reduction, of restrictions or barriers on the free exchange of goods and services between nations. This includes the removal or reduction of both tariff (duties and surcharges) and non-tariff obstacles (like licensing rules, quotas and other requirements). The easing or eradication of these restrictions is often referred to as promoting "free trade." Those against trade liberalization, claim that it can cost jobs and even lives, as cheaper goods flood the market (which at times may not undergo the same quality and safety checks required domestically). Proponents, however, say that trade liberalization ultimately lower consumer costs, increases efficiency and fosters economic growth McCulloch NA et al (2001).

Deregulation of Interest Rates that entails a movement towards or an entire privatizing of the interest-rate; making it more free-market dictated rather than by government-

regulated means. Liberalization will likely result in higher interest rates, discourage marginal investment, improve the effectiveness of intermediation and monetary transmission, and enhance the financial access of underserved sectors. This also encourages savings, as the returns on savings are more rewarding hence savers will seek to gain from the improved interest rates. On the downside however, higher interest rates will lead to higher cost of capital and this may lead to inflation/ inflationary environment in a country.

According to Kaminsky and Schmukler (2003). Financial liberalization consists of the deregulation of the foreign sector capital account, the domestic financial sector, and the stock market sector viewed separately from the domestic financial sector. The financial system performs a number of important functions in an economy. Basically, it takes care of mobilizing financial resources, facilitating risk management, allocating resources to the most efficient projects, monitoring the use of financial resources (exerting corporate governance), and providing a payment system that makes trade among economic participants more efficient(Levine, 1997).

Financial development occurs when a financial system is able to improve on performing these functions. There is a large body of theoretical and empirical work emphasizing that financial development is positively associated with economic growth. Closely related to the discussion of the relationship between finance and growth is the discussion of the role that financial liberalization can play in this relationship. The main idea is that financial liberalization may impact on financial development which, in turn, affects economic growth.

Financial system in any particular country facilitates the development and growth of the economy. Basically, it takes care of mobilizing financial resources, facilitating risk management, allocating resources to the most efficient projects, monitoring the use of financial resources (exerting corporate governance), and providing a payment system that makes trade among economic participants more efficient(Levine 1997). Financial development occurs when a financial system is able to improve on performing these

functions. There is a large body of theoretical and empirical work emphasizing that financial development is positively associated with economic growth. Closely related to the discussion of the relationship between finance and growth is the discussion of the role that financial liberalization can play in this relationship. The main idea is that financial liberalization may impact on financial development which, in turn, affects economic growth. In the late 1970s and early 1980s, most developing countries were in a crisis of economic policy. Due to adverse circumstances and the deteriorating economic and financial conditions, the financial system proved to have many deficiencies and was unable to generate economic growth.

Based on financial aid from the World Bank and International Monetary Fund, many developing countries in Asia, Europe, Latin America and Africa have undertaken economic reforms to create a suitable investment environment and develop the private sector through a economic system based on market mechanisms. Apparently the result of these reforms was to transform developing economies of many emerging economies, where economic growth is underpinned by strong private sector growth and rapid maturation of capital markets

### **Required**

- a) Formulate five reforms and policy measures to deregulate and transform the Kenyan financial system to achieve a liberalized market-oriented system with reference to the case study **(10 Marks)**
- b) Evaluate how financial liberalization may influence financial development, which, in turn, affects economic growth. **(10 Marks)**
- c) The financial system performs a number of important functions in an economy. Assess the key functions of commercial banks from case study. **(10 Marks)**

### **QUESTION TWO**

- a) Kenyan authorities have allowed market forces to play a relatively influential role in the financial system with the government maintaining a formidable presence

in the financial sector projects. Illustrate the principal instruments of government's intervention in the Kenyan financial sector. (10 Marks).

- b) The liberalization of the capital account is captured by the regulations on offshore borrowing by financial institutions and by non-financial corporations, on multiple exchange rate markets and on capital outflow controls. Evaluate the Financial Liberalization Theory (5 Marks).

### QUESTION THREE

- a) Banks and Government need to re-evaluate their pre-conceived notions about the commercial opportunities in serving the rural sector. Assess any five measures that can be used revitalize and revamp rural development (5 Marks).
- b) Women's access to economic opportunities is undermined by their lower access to production inputs. Analyze how banks can address gender issues as matter of development effectiveness. (10 Marks)

### QUESTION FOUR

- a) The youth are the strength, wealth and drivers of innovation in Kenya. Deliberate and systematic efforts are necessary to appropriately equip and empower them to attain and realize their full potential and in turn, drive the attainment of development objectives set out in Kenya Vision (2030). Briefly, examine the role of Kenya Youth Development Policy. (5 Marks)
- b) Green banking undertakes proactive measures to protect environment and to address climate change challenges while financing along with efficient use of renewable, non-renewable, human and natural resources. Assess any five features of green banking. (10 Marks)

