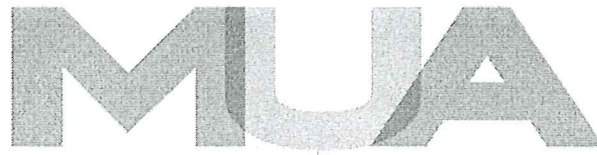


The  
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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**  
**SCHOOL OF MANAGEMENT AND LEADERSHIP**  
**DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP**

**BML 211 : MONEY AND BANKING**

**DATE: 3<sup>RD</sup> APRIL 2019**

**DURATION: 2 HOURS**

**MAXIMUM MARKS: 70**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 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:**

**A CASE OF KENYA COMMERCIAL BANK**

Kenya Commercial Bank (KCB) had to give its South Sudan subsidiary employees more than 300 per cent pay rise last year to shield them from high cost of living. The regional lender, which currently has subsidiaries in Kenya, Uganda, Tanzania, Rwanda Burundi and South Sudan, took the decision after hyperinflation struck the world's youngest nation. "Because of hyperinflation, we had to increase salaries of our staff by significant amounts of over 300 per cent for them to be able to afford the cost of living," said Group Chief Finance Officer Lawrence Kiambi.

Hyperinflation occurs when a country experiences very high and usually accelerating rates of inflation, leading to rapid erosion of the real value of local currency. Last year, inflation in South Sudan accelerated to 476 per cent from just 56 per cent in 2015. The impact was that for a basket of goods that was worth say Sh1000, KCB workers in South Sudan got it at Sh4, 760 last year. This was the highest inflation in the region, putting it in the league of countries such as Zimbabwe, Venezuela and Syria. In the same period, inflation was 9.6 per cent in Burundi, 6.6 per cent in Rwanda, 5.7 per cent in Uganda and just five per cent in Tanzania.

According to figures presented by KCB, the cumulative three year inflation for South Sudan was 1,285.3 per cent as at 31 December 2016, signaling upward trend in the cost of living. The average annual consumer price index averaged 1,592.32 per cent at the close of the year. South Sudan pound (SSP) has also continued to take a beating since 2013 when it was fixed at 3.06 SSP to one dollar. From an exchange rate of \$1 for 18.5 SSP in 2015, the currency deteriorated further last year with one dollar becoming an equivalent of 83.90 SSP. That translates to a depreciation of 354 per cent. The devaluation in the currency, KCB CEO Joshua Oigara said, had a hand in the hyperinflation. For the first time in seven years, the group failed to make double digit per cent growth in year-on-year profit, managing just 0.5 per cent growth to Sh19.72 billion.

**Required**

- a) KCB plays a significant role in economy of South Sudan explain five function of KCB (5 marks)
- b) KCB has hired you as a finance manager to help on how to control inflation. Explain five monetary policy that will guide you (10 marks)
- c) The money market has played a significant role in the economy of Sudan. Explain five functions of money market (10 marks)

**QUESTION TWO**

- a) You have been employed by Central Bank of Kenya to deal with money supply in the economy. Explain five functions of money (5 marks)
- b) As a finance student at Management University of Africa you are to present on evolution of money. Describe five stages of evolution of money (10 marks)

**QUESTION THREE**

- a) Discuss the Keynesian approach to the asset demand of money (5 marks)
- b) Explain five determinants of transaction demand for money (10 marks)

**QUESTION FOUR**

- a) You have been employed as Finance manager of a bank to work in the investment section. List and explain five importance of the saving investment (5 marks)
- b) Financial regulation is very important in keeping sound financial institutions. Explain five functions of financial sector regulation (10 marks)

**QUESTION FIVE**

- a) Highlight five Differences between inflation and deflation (5 marks)
- b) Many developing countries place a lot of emphasis on monetary policy to accelerate an orderly process of economic development. Explain five limitations of monetary policy (10 marks)

**QUESTION SIX**

- a) The supply of money in the Kenyan economy is determined by various factors. Identify and explain five factors that determine the supply of money (5 marks)

- b) As finance expert you have been approached to explain on the role of money to capitalist economy to business men. Explain five importance of money to the economy **(10 marks)**