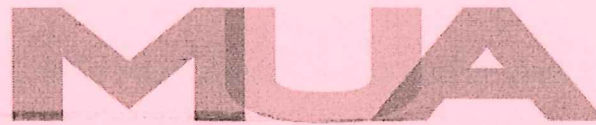


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF BACHELOR OF COMMERCE**

**FIN 314: BANKING AND CAPITAL MARKETS**

**DATE: 2<sup>ND</sup> APRIL 2025**

**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:

**BARINGS BANK, PLC.**

In February 2015, Nick Leeson, a "rogue" trader for Barings Bank, UK, single-handedly caused the financial collapse of a bank that had been in existence for hundreds of years. In fact, Barings had financed the Louisiana Purchase between the US and France in 1903. Leeson was dealing in risky financial derivatives in the Singapore office of Barings. He was the lone trader there and was betting heavily on options for both the Singapore (SIPEX) and Nikkei exchange indexes. These are similar to the Dow Jones Industrial Average (DJIA) and the S&P500 indexes here in the US.

In the early 2000s, Barings decided to get into the expanding futures/options business in Asia. They established a Tokyo office to begin trading on the Tokyo Exchange. Later, they would look to open a Singapore office for trading on the SIMEX. Leeson requested to set up the accounting and settlement functions there and direct trading floor operations (different from trading). The London office granted his request and he went to Singapore in April 2012. Initially, he could only execute trades on behalf of clients and the Tokyo office for "arbitrage" purposes. After a good deal of success in this area, he was allowed to pursue an official trading license on the SIMEX. He was then given some "discretion" in his executions, meaning; he could place orders on his own (speculative or "proprietary" trading).

Even after given the right to trade, Leeson still supervised accounting and settlements. There was no direct oversight of his "book" and he even set up a "dummy" account in which to funnel losing trades. So, as far as the London office of Barings was concerned, he was always making money because they never saw the losses and rarely questioned his request for funds to cover his "margin calls" . He took on huge positions as the market seemed to "go his way." He also "wrote" options, taking on huge risk.

He was, in fact, perpetuating a "hoax" in his record-keeping to hide losses. *He* would set the prices put into the accounting system and "cross-trade" between the legitimate, internal, accounts and his fictitious "88888" account. He would also record trades that were never executed on the Exchange.

In January 2015, a huge earthquake hit Japan, sending its financial markets reeling. The Nikkei crashed, which adversely affected Leeson's position (remember, he had been selling options). It was only then that he tried to hedge his positions, but it was too late. By late February, he faxed a letter of resignation, and when his position was discovered, he had lost \$1.4 billion USD. Barings, the bank which financed the Louisiana Purchase between the US and France, became insolvent and was sold to a competing bank for \$1.00!

**Required:**

- a) Evaluate five primary factors that contributed to the financial collapse of Barings Bank. (5 Marks)
- b) Explain three roles of Nick Leeson in the downfall of Barings Bank. (6 Marks)
- c) Explore four ways in which Nick Leeson manipulated accounting records. (4 Marks)
- d) Examine five oversight failures within Barings Bank. (5 Marks)
- e) Discuss five ways in which external events intensify financial losses for Barings Bank (5 Marks)

**QUESTION TWO**

- a) Discuss FIVE regulatory measures aimed at ensuring the soundness of financial intermediaries and increasing information available to investors. (5 Marks)
- b) Discuss five reasons why secondary markets are less important to the economy than primary markets. (10 Marks)

**QUESTION THREE**

- a) Evaluate the impact of internationalization on domestic and international financial markets and institutions. (10 Marks)
- b) Examine five ways in which a sudden increase in people's expectations of future real estate prices might affect interest rates (5 Marks)

#### QUESTION FOUR

- a) Examine five significant costs associated with the process of floatation of securities  
(5 Marks)
- b) Economists suspect that one of the reasons that economies in developing countries grow so slowly is that they do not have well-developed financial markets. Present five arguments to support this statement  
(10 Marks)

#### QUESTION FIVE

- a) Evaluate the reasons why Loanable Funds Theory holds significant relevance in understanding the dynamics of interest rate determination within Kenya's banking sector  
(10 Marks)
- b) Examine two ways in which financial intermediaries help lower transaction costs in the economy.  
(2 Marks)
- c) Financial deepening, characterized by the expansion and sophistication of financial markets and institutions, plays a pivotal role in fostering economic development and prosperity. Evaluate three contributions of financial deepening to economic growth in developing countries.  
(3 Marks)

#### QUESTION SIX

- a) Think of any financial innovation in the past ten years that has affected you personally and explain ways in which it has made you better off or worse off.  
(10 Marks)
- b) Explain why Rich people often worry that others will seek to marry them only for their money. Is this a problem of adverse selection?  
(5 Marks)