MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 310: MANAGEMENT OF FINANCIAL INSTITUTIONS

Date: 27/4/2016 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS

Answer Question One and Any Other Two Questions

1. a) compare and contrast pension benefits from provident fund benefits. (6 marks)

   b) Until recently, the common belief was that financial institutions existed to solve other institutions financial management problems. With examples, explain the main issues that managers of today's financial institutions need to address to ensure solvency and profitability of those institutions. (6 marks)

   c) Explain the main regulations of insurance companies. (5 marks)

   d) Explain the three main investment advisory companies (2 marks)

   e) How can a financial institution be subject to sovereign risk even if it lends to the highest quality foreign corporations. (3 marks)

   f) How do financial institutions use securitization to manage their interest rate ,credit and liquidity risk. (4 marks)

2. a) By law the activities of most financial institutions were limited so that for several decades their financial management was not a terribly complex process. regulators set prices and costs such that financial institutions were usually profitable and relatively few failed. Explain the challenges that face the present day financial institutions especially those operating in a financially liberalized environment. (10 marks)

b) State and briefly explain six aspects of internal controls that deserve special attention in management of financial institutions (6 marks)

c) Identify any incidences in the recent past that the central bank of Kenya has applied moral suasion in the context of monetary regulation. (4 marks)

3. a) Explain the main objectives of regulating financial institutions in Kenya. (6 marks)

b) Explain the following benefits of financial intermediation. (2 mks each)

i) transmission of monetary policy
ii) reduced transaction cost
iii) maturity intermediation

c) In what ways does credit analysis of a mid market borrower differ from that of a small business borrower. (4 marks)

d) How does securitization help a financial institution manage its interest rate risk and liquidity risk exposure. (4 marks)

4. a) when a steel company goes bankrupt ,other companies in the same industry benefit because they have one less competitor. but when a bank goes bankrupt other banks do not necessarily benefit. Explain this statement. (6 marks)

b) If a financial institution funds longterm assets with short term liabilities, what will be the impact of an interest rate increase on earnings? (5 marks)

c) how does the regulation of insurance companies compare with that of commercial banks. (3 marks)

d) Explain the main functions of the front office part of an investment bank. (6 marks)

5. a) state and explain five functions of insurance regulatory authority [IRA] (5 marks)

b) the retirement benefits authority[RBA] has indicated a shift to a risk based approach to supervision under which it will direct resources and regulatory focus to the areas that pose the greatest risk to achieving statutory objectives. Discuss this statement. (5 marks)

c) Discuss how economic transactions between household savers of funds and corporate users of funds would occur in a world without financial intermediaries. (10 marks)