CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR IN COMMERCE, BACHELOR OF COOPERATIVE MANAGEMENT

BCOM 432: MANAGEMENT OF FINANCIAL INSTITUTIONS

STREAMS: BCOM, BCOP Y4S1 **TIME: 2 HOURS**

DAY/DATE: THURSDAY 25/03/2021 **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS:

- ***Answer question one and any other two questions***
- ***Do not write anything on the question paper***

QUESTION ONE

(a) A regulatory structure is of importance in ensuring safety & soundness of financial markets and institutions and in order to prevent systematic externalities. In 6 points justify this statement by describing how these externalities would affect the economy. (12 marks)

(b) Explain the structure and functioning of mutual savings bank. (6 marks)

(c) Describe 4 ways rules and regulations help to protect customers from exploitation by financial institutions & markets (8 marks)

(d) Explain two main types of liquidity risk (4 marks)

QUESTION TWO

(a) Describe the different types of non –depository institutions and the role they play (8 marks)

(b) Explain the different types of agency functions played by commercial banks in Kenya (8 marks)

(c) The cost of liabilities is 10% and the return on assets is 12% per year. Using calculations, explain how the maturity of assets and liabilities is mismatched. (4 marks)

QUESTION THREE

(a) Explain the special function performed by financial institutions (10 marks)

(b) Highlight the weaknesses of the repricing gap model (3 marks)

(c) Supposed the financial manager calculates the duration of assets to be 6 years and liabilities is 4 years. The manager learns that interest rates are expected to rise from 12% to 13% in future. The balance sheet is as follows;

Balance Sheet

Dr		Cr	
Assets		Equity + Liabilities	
Assets	200	Liabilities	180
	200	Equity	20
			200

Required;

Calculate the effect of changes in interest rate on equity, assets and liabilities (7 marks)

QUESTION FOUR

(a) Explain any three functions of self regulatory organizations in an economy. (6 marks)

(b) Explain the functions of the authority inchrage of the retirement benefits in Kenya. (8 marks)

(c) Consider a financial institution with the following balance sheet

Dr Assets		Equity + Liabilities Cr	
Cash	100	deposit	150
Gross loans	100	Equity	50
	200		200

Suppose that the manager realizes the loan amount of Sh. 15 M is unlikely to be repaid. Show this effect on the balance sheet (2 marks)

(d) Advice the manager on any 2 credit selection strategies to follow in order to avoid future defaults (4 marks)

....