



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF  
SCIENCE & TECHNOLOGY  
(MMUST)**

**MAIN CAMPUS/NAIROBI CAMPUS/WEBUYE CAMPUS/BUNGOMA  
CAMPUS**

**UNIVERSITY EXAMINATIONS  
2018/2019 ACADEMIC YEAR**

**FIRST YEAR SEMESTER TWO EXAMINATIONS**

**FOR THE DEGREE  
OF  
DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DBF 101**

**COURSE TITLE: MONEY AND BANKING**

**DATE: Tuesday 23<sup>rd</sup> September 2019      TIME: 8-10am**

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**INSTRUCTIONS TO CANDIDATES**

Attempt **QUESTION ONE** and any other **TWO (2)** questions

**TIME: 2 Hours**

**MMUST observes ZERO tolerance to examination cheating**

**This Paper Consists of 2 Printed Pages. Please Turn Over**

**QUESTION ONE (30 MARKS)**

- a) Define the following terms;
  - i) Financial Instruments (3marks)
  - ii) Monetary policy (3marks)
  - iii) Reserve requirement (3marks)
- b) Using an illustration, describe the structure of the financial system? (5marks)
- c) Explain the process of credit creation by commercial banks in an economy. (5marks)
- d) Differentiate between commercial bank, Central bank and non -bank financial institutions. (6marks)
- e) Explain some of the liabilities that commercial banks carry on their balance sheets (5marks)

**QUESTION TWO (20 MARKS)**

- a) What is the meaning of open market operation as a monetary policy tool (5marks)
- b) Explain direct monetary tools used by the central bank to direct economic activities. (5marks)
- c) Discuss the limitations of credit creation by commercial banks in an economy. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) What role do commercial banks perform in economic growth and development. (8marks)
- b) Using balance sheets for three banks A, B, and C illustrate how credit is created from a deposit of shs.1000 when the reserve requirement is 10%. (6marks)
- c) Explain three effects of the interest rate control introduced in August 2016 on the banking sector in Kenya today. (6marks)

**QUESTION FOUR (20 MARKS)**

- a) What role do non-bank financial institutions play in economic development? (8marks)
- b) Write brief notes on the following non -bank financial institutions;
  - i) Hedge funds (3marks)
  - ii) Pension funds (3marks)
  - iii) Private equity fund (3marks)
  - iv) Mutual funds (3marks)