



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

MAIN/BUNGOMA/NAIROBI/WEBUYE CAMPUS

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

THIRD YEAR SPECIAL/SUPPLIMENTARY EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: BCF 352

COURSE TITLE: DEVELOPMENT FINANCE

DATE: MONDAY, 1ST AUGUST 2022 TIME: 2-4PM

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO (2)** questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over. ►

QUESTION ONE (30 MARKS)

- a) The Ministry of Health in a government wants to sign a loan with the World Bank for US\$100 million for investment in the health care sector. There are various options for the project:
- Investment in a new urban hospital in the capital an urban area, which is relatively wealthy compared to rural areas of the country, but where the population is increasing by 5% per annum through in-migration.
 - The construction of three smaller rural hospitals in each of three poorer rural regions of the country.
 - Total investment to be directed to an extensive system of rural clinics in all the rural provinces of the country. Each of these options brings different levels of benefits.

Required:

Discuss in detail how you would evaluate and choose among these three options and justify your answer.

(10 Marks)

- b) Developing countries cannot rely on aid because donor countries decide which LDC's are to receive aid, how much, in what form (loans or grants, financial or technical assistance),for what purpose and under what conditions. Which alternative approaches can LDC's use to raise additional predictable resources for development?(10 Marks)
- c) The stabilization role of the central bank is essentially secondary to its development role. Discuss the role of the central bank of a country in relation to development. (10 Marks)

QUESTION TWO (20 MARKS)

- A. 'In the short run public domestic and foreign borrowings are used to fill the savings gap to achieve developmental goals. However in the long run it is the efficient and equitable collection of taxes on which governments must base their development aspirations. However in developing countries, the establishment of effective and efficient tax systems faces some formidable challenges.' Discuss. (12 marks)
- B. State owned enterprises play a critical role in the economies of developing countries. Discuss some of the reasons for their existence. (8 marks)

QUESTION THREE (20 MARKS)

- a) In more developed countries, monetary and financial policy plays a major direct and indirect role in governmental efforts designed to expand economic activity which developing countries lack. Discuss. (10 marks)

- b) Development success depends not only on a vibrant private sector and an efficient public sector, but on a vigorous citizen sector. Discuss the role of the citizen sector as a development strategy. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Private foreign direct investments are seen as a way of filling in gaps which are prevalent in LDC's. Discuss these gaps and how private capital flows fills them. (8 Marks)
- b) Development has traditionally meant achieving sustained rates of growth of income per capita to enable a nation to expand its output at a rate faster than the growth rate of its population. Discuss the development finance institutions which facilitate this process. (12 Marks)