

# **The Co-operative University of Kenya**

**END OF SEMESTER EXAMINATION AUGUST-2018**

**EXAMINATION FOR THE DIPLOMA IN CO-OPERATIVE MANAGEMENT**  
**(YR I SEM I)**

**UNIT CODE: COCM 1105**

**UNIT TITLE: PRINCIPLES & PRACTICE OF BANKING**

**DATE: 22<sup>ND</sup> AUGUST, 2018**

**TIME: 9:00 AM – 11:00 AM**

## **INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

## **QUESTION ONE**

- (a) Explain FOUR qualities of good money (4 marks)
- (b) Explain FIVE functions of Central Bank of Kenya (5 marks)
- (c) Describe THREE factors that determine money held for emergencies (3 marks)
- (d) Differentiate between money markets and capital markets (2 marks)
- (e) Describe the THREE forms of E-Banking (3 marks)
- (f) Explain FOUR methods/instruments of monetary policy (4 marks)
- (g) Outline FOUR differences between a promissory note and a bill of exchange (4 marks)
- (h) Describe the FIVE steps process in the evolution of banks (5 marks)

## **QUESTION TWO**

- (a) Explain the business of banking as defined by the banking Act in Kenya (10 marks)
- (b) Explain FIVE objectives of monetary policy in Kenya (10 marks)

## **QUESTION THREE**

- (a) Explain FIVE advantages of internet banking (10 marks)
- (b) Outline the financial assets included in the unclaimed financial assets (UFA) Act, giving the criteria used to declare them unclaimed (10 marks)

## **QUESTION FOUR**

- (a) You wish to pay 5 million to your supplier in Mombasa. Describe the payment system you will use and give its advantages (10 marks)
- (b) Explain FIVE characteristics of negotiable instruments (10 marks)

## **QUESTION FIVE**

- (a) Explain FIVE functions of the Central Bank of Kenya as a banker to commercial banks (10 marks)
- (b) The banking system started operations with Kshs 20 billion. The withdrawals from the system are 15%
  - i. Show the credit creation process for periods 1,2 and 3
  - ii. Calculate the total credit that can be created
  - iii. Explain the factors that can limit the credit creation process (10 marks)