



The Co-operative University College of Kenya
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

END OF SEMESTER EXAMINATION APRIL-2015

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS (YR1 SEM 1)**

UNIT CODE: HCOB 2102

UNIT TITLE: PRINCIPLES OF BANKING

DATE: APRIL, 2015

TIME: 9.00 A.M. – 11. 00 A.M.

INSTRUCTIONS:

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

QUESTION ONE

- (a) i. Define the term “money”. (1 mark)
ii. Money is known by what it does. Discuss FIVE functions. (5 marks)
iii. Introduction of money saved people from problems experienced during barter trade. Discuss FOUR drawbacks. (4 marks)
- (b) i. Define ‘central bank’. (2 marks)
ii. Discuss FIVE functions of a central bank of Kenya. (10 marks)
iii. Discuss FOUR instruments of monetary policy used by central bank to control lending of commercial banks. (8 marks)

QUESTION TWO

- (a) Define and discuss FIVE limitations among commercial banks in credit creation. (10 marks)
- (b) Explain FIVE factors considered by commercial banks to determine credit worthiness of a borrower. (10 marks)

QUESTION THREE

- (a) Define and distinguish between a promissory note and a bill of exchange. (8 marks)
- (b) Discuss at least THREE advantages and disadvantages of a e banking that a bank customer are facing. (12 marks)

QUESTION FOUR

- (a) The function of commercial bank is to lend money. Discuss FIVE ways through which commercial banks lend money. (10 marks)
- (b) Explain FIVE other functions of commercial banks. (10 marks)

QUESTION FIVE

- (a) Explain THREE features of negotiable instruments. (6 marks)
- (b) Differentiate between a crossed cheque and open cheque. (4 marks)
- (c) Give FOUR reasons for banks to refuse paying a cheque. (4 marks)
- (d) Outline at least SIX parties of a cheque. (6 marks)