### **LAIKIPIA UNIVERSITY COLLEGE**

## Read the excerptS below from The Economist, July 9, 2009 and answer the question**s that follow**.

## **SECTION A**

## The crash has been blamed on cheap money, Asian savings and greedy bankers. For many people, deregulation is the prime suspect

THE autumn of 2008 marks the end of an era. After a generation of standing ever further back from the business of finance, governments have been forced to step in to rescue banking systems and the markets. In America, the bulwark of free enterprise, and in Britain, the pioneer of privatization, financial firms have had to accept rescue and part-ownership by the state. As well as partial nationalization, the price will doubtless be stricter regulation of the financial industry. To invert Karl Marx, investment bankers may have nothing to gain but their chains.

The idea that the markets have ever been completely unregulated is a myth: just ask any firm that has to deal with the Securities and Exchange Commission (SEC) in America or its British equivalent, the Financial Services Authority (FSA). And cheap money and Asian savings also played a starring role in the credit boom. But the intellectual tide of the past 30 years has unquestionably been in favor of the primacy of markets and against regulation. Why was that so? Each step on the long deregulatory road seemed wise at the time and was usually the answer to some flaw in the system. The Anglo-Saxon economies may have led the way but continental Europe and Japan eventually followed (after a lot of grumbling) in their path.

Rather than question the principle of deregulation, some governments redesigned their regulatory structures. Britain devised the FSA in 1997 (even taking away banking regulation from the Bank of England) in a conscious attempt to create a single supervisory body. In America the SEC shares authority with the Commodities Futures Trading Commission, the Federal Deposit Insurance Corporation, state insurance commissioners and so on.

**Required:**

1. It appears that before the global financial crisis that started in the year 2008, Governments across the world had been loosening their regulation (in other words, had been deregulating) of the financial sector. Provide, in the form of a discussion, a **CASE FOR** and a **CASE AGAINST** financial sector regulation (16 marks)
2. Discuss the FOUR laws/ acts and guidelines from which the financial sector regulators in Kenya draw their powers (8 mks)

**SECTION B**

1. Discuss the principle of agent banking. What are the aims of agent banking? (6 mks)