**BCOM 430: MANAGEMENT OF FINANCIAL INSTITUTIONS**

**EXAM FOR AUGUST 2011**

**INSTRUCTIONS: ATTEMPT QUESTION ONE AND CHOOSE TWO OTHER QUESTIONS.**

**SECTION A: COMPULSORY**

* 1. Discuss the provisions of the Basel III accord, and the implications to the management of financial institutions. (6 mks).
  2. What do you understand by the term net regulatory burden? (2mks)
  3. Regulators place emphasis on the need for financial institutions to have adequate capital. Consequently, most financial institutions must meet certain minimum capital requirements set by the regulators. Give three reasons why you think financial institutions should have adequate capital (6 mks).
  4. Distinguish between core capital and supplementary capital as applied to commercial banks in Kenya (4 mks).
  5. When an investor chooses to invest through a mutual fund, he/she should be aware that there are costs to be incurred. In reference to mutual funds, discuss:
     1. The front end load. (2 mks)
     2. The Back end load. (2 mks)
     3. Operating expenses. (2 mks)
  6. Differentiate between defined contribution and defined benefits pension funds. Which one do you think most employees would prefer and why. (3 mks)
     1. Distinguish between Pension and provident fund.(3 mks)

**SECTION B (CHOOSE TWO QUESTIONS)**

* 1. Highlight and briefly explain two reasons why financial institutions face liquidity problems (4 mks).
  2. Discuss in detail (with examples) three methods a liquidity manager may use to estimate liquidity needs for a financial institution. (12 mks).
  3. List, in order of priority, how funds for a financial institution should be employed. (4 mks)
  4. In your own words, provide a definition of capital for financial institutions. Explain the role of capital in the support of growth and public confidence for an institution. (3 mks)
  5. Explain why capital in depository institutions serves to reduce **moral hazards** and to provide protection for deposits. (3 mks)
  6. Explain why market value (Economic capital) is theoretically a better measure than book value (book capital) for measuring the ability of capital to perfom functions of providing protection and supporting growth. (6 mks)
  7. Explain the potential advantages and disadvantages to regulators and to managers of financial institutions of the risk adjusted capital measures. How do they differ from the traditional measures of capital? (8 mks)
  8. Explain the risk transferred to investment bankers when they underwrite new securities issued by corporations. (4 mks)
  9. How does the formation of a syndicate limit the risk exposure to underwriting? (2 mks)
  10. Discuss three types of underwriting contracts that an investment bank may enter into. (6 mks)
  11. What FOUR benefits do investment funds (including mutual funds) offer to shareholders that are not offered by direct investment initiatives? (8mks)
  12. Explain the important elements of policies concerning default risk in the loan portfolio. (4 mks)
  13. How are credit risk policies affected by regulatory standards? (4mks)
  14. Describe four different areas of depository activities that can be analyzed through financial ratios. What difficulties may be encountered when using financial information to make performance comparisons of different institutions?(12 mks)