

## **29 - MONEY AND BANKING**

*The topic entails:*

- (i) Explanation of meaning of barter and highlight its major limitations in facilitating trade.**
- (ii) Explaining the meaning of money and its characteristics**
- (iii) Discussing function of money and how each of the characteristics of money facilitate these functions.**
- (iv) Discuss the factors that influence the demand and supply of money.**
- (v) Meaning of banking and discuss the role of banking in an economy.**
- (vi) Discuss the development of banking**
- (vii) Discuss the various types of accounts offered by commercial banks**
- (viii) Discuss the functions of non-bank financial institutions bringing out the differences between commercial banks and non-bank financial institutions.**
- (ix) Discuss the role played by the central bank in an economy**
- (x) Identify trends in banking.**

1. Give **four** circumstances under which a trader would operate a fixed deposit account
2. Give any **four** functions of money
3. Highlight **four** reasons why loans advanced by commercial banks in Kenya may not appeal to many people
4. Give **four** disadvantages of barter trade
5. Identify the motive of holding money in each of the circumstances below:-
  - (a) Need to hold money to cater for future unforeseen eventualities
  - (b) Need to have money to cater for daily expenses
  - (c) Need to have money with hope that prices will fall in future in order to purchase more
6. Identify **four** roles of the Central Bank as a government banker
7. E-banking is a method of banking through electronic systems. Give **four** reasons to account for the rising popularity of this banking system
8. Mention **four** ways in which individuals can hold money
9. State **three** motives of holding money
10. Outline **four** differences between commercial banks and non- bank financial institutions
11. Identify **four** roles played by the international monetary fund in international trade

## **22. MONEY AND BANKING**

1. Explain **five** characteristics of a monopolistic market.
2. Highlight any **five** modern trends in the Banking industry in Kenya.
3. Explain **five** ways in which commercial banks have enhanced the development of business activities in the country.
4. Explain **five** ways through which the central bank of Kenya can expand the supply of money in an economy.
5. Explain **five** methods of payments offered by commercial Banks in Kenya.
6. Explain **five** factors that can lead to a cheque being dishonoured.
7. Explain **four** emerging trends in the banking system.
8. Banking has played a major role in Kenya's economic development. Explain **five** current trends in the banking sector.

## **29. MONEY AND BANKING**

- 1.**
  - when one has a large amount of money with no immediate use
  - Where one has a financial obligation to meet at a future date
  - Where one intends to use it as collation/security.
  - Where a trader wants to earn interest from the fixed deposit account.
- 2.**
  - Medium of exchange
  - Measure of value / unit of account
  - Standard of deferred payment
  - Store of value
- 3.**
  - (i) They charge higher interest rates
  - (ii) They require collateral
  - (iii) Long procedure is followed

4.
  - (i) Lack of standard measure of value.
  - (ii) Indivisibility of commodities.
  - (iii) Problem of storage.
  - (iv) Requires double coincidence of wants.
  - (v) Some commodities are bulky / difficult to carry.
  - (vi) Lack of unit of account.
  - (vii) Lack of standard of deferred payment.
  
5.
  - (a) Need to hold money to cater for future unforeseen eventualities
    - Precautionary motive
  - (b) Need to have money to cater for daily expenses
    - Transaction motive
  - (c) Need to have money with hope that prices will fall in future in order to purchase more
    - Speculative motive
  
6.
  - Keeping government accounts/records/ maintain accounts of government departments
  - Manage public debt on behalf of government
  - Financial advisor to the government
  - Guarantee government credits arising from internal borrowing
  - Make local and international financial transactions on behalf of the government
  
7.
  - It is very fast to withdraw money
  - It minimizes theft and fraud
  - It is easy to deposit money
  - Money transfer is facilitated
  
8.
  - Currency notes and coins
  - Securities and bonds
  - Demand deposits
  - Time deposits
  
9.
  - Transaction motive
  - Precautionary motive
  - Speculative motive

10.

Commercial banks	Non- bank commercial institutions
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a)provide current accounts	a)Do not provide current accounts
b)provide short term and medium term finance	b)provide medium and long term finance
c)provide loans for unspecified exchange	c)provide loans for specified activity
d)provide foreign exchange transactions	d)do not provide foreign exchange transaction
e) Provide finance for working capital	e) Provide finance for capital development
f) Do not participate capital markets	f) Participate in capital markets

- 11.
- provide short term/long time finance to member nations
  - provide support for debt relief/poverty reduction
  - helps poor member access international capital
  - provide technical service/advice to member nations
  - provide forum for international consultation by countries on monetary issues
  - ensure stability on international monetary system

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## **22. MONEY AND BANKING**

### **1. *Characteristic of a monopolistic market***

- One producer/supplier
- many buyers on the market
- product has no substitute
- no free entry into the market by suppliers
- The producer determines the price on the market.

### **2. *Modern trends in banking:***

- Internal Banking.
- ATM

- Telephone Banking.
- Investment – person, secure, mortgages, stocks/shows etc.
- More support for community projects e.g. payment of school fees (Equity/Co-op)
- Savings and credit co-operatives assuring more banking roles e.g. front office services.

**3. *Ways in which commercial banks have enhanced the development of business activities in the country;***

- Act as a referee to business which intend to get credit facilities
- Give advisory services to business people on investment/expansion possibilities
- Guarantee payment for overseas suppliers by issuing letter of credit
- Facilitates payment among business inform of cash/cheque/credit transfer/standing orders.
- They offer safe custody /safe keeping of money
- Offer credit facilities /lending money through saving/current fixed deposit
- Acting as a trusted execution of wills in management of proportional of deceased persons /beneficial
- Agent of stock exchange /companies they assist traders to buy shares
- Custodians of valuable items like land title deeds certificates wills e.t.c.
- Availing foreign currency to importers thus assisting in international trade

**4. *Ways through which central bank of Kenya can expand supply of money in an economy;***

- Open market operation- central bank can buy securities in OMO to increase money supply
- Reducing lending interest rate – central bank lends money to commercial banks at reduced rate, commercial banks will also lend money to customers at reduced rate hence increasing money supply
- Cash/ liquidity ratio requirement- central bank reduces ratio of deposits held by commercial banks, money available for lending by commercial bank will increase thereby increasing money supply
- Compulsory deposit requirements- central bank reduces the commercial bank compulsory deposit with it, commercial banks will have more money to lend hence increasing money supply
- Directives and requests- central bank instructs commercial banks to reduce their lending rates, there will be an increase in money supply in an economy
- Selective credit control – central bank removes the restriction on the sectors, commercial banks will lend out more money

**5. *Five methods of payments offered by commercial Banks in Kenya ;***

- i) Cheque- Instruct to the bank to make payment to the named person
- ii) Standing orders- Instruct to make a periodic payment of a specific amount to a named person until instructed otherwise



- iii) Credit transfer-Payment of several people by use of one cheque
- iv) Credit cards- Issued by a bank to a client to make purchases without necessarily any cash
- v) Travelers cheques- Used majorly by business men who travel a lot to make payments outside
- vi) Bankers cheque/Boundary- It's a cheque written on another to make payment on another the payment is guaranteed

**6. *Five factors that lead to a cheque being dishonoured are;***

- When there are alterations on the cheque which are not countersigned by the drawer
- When the signature on the cheque differs from the drawers specimen signature held by the drawer
- If the cheque is dirty or torn
- If there are insufficient funds in the drawers bank account at the time of cashing the cheque
- If the amount in words differs from the amount in figures
- If the cheque is stale i.e. the cheque is presented for payment after six months since the date of issue
- If the cheque is post dated i.e. the cheque being presented for payment earlier than the cheque date
- If the account holder is dead and the bank is aware of the fact
- If the drawer instructs the bank not to pay that particular cheque
- If the cheque contains errors which need to be paid across the counter
- If the drawer becomes bankrupt or insane i.e. the drawer has lost contractual capacity

**7. *Four emerging trends in the banking system are ;***

- late hour banking –e.g. executive banking after the normal banking hours
- acting as agents of stock exchange /brokers –through which new shares can be sold to the public or customers buying shares through them
- issue of credit cards-allowing customers obtain goods and services without paying for them in cash
- Establishment of new accounts e.g. salary account, jumbo junior accounts different from the traditional ones
- abolition of bank account monthly charges e.g. ledge fees and minimum deposits in some accounts
- use of ATMS-enabling banks offer services round the clock
- networking of branches-enabling clients carry some banking transactions in any branch
- E-banking-customers carrying out banking transactions by use of computers

- M-banking-customers carrying transactions using mobile phones e.g. salary alerts, deposits alerts, payment of bills, transfer of money e.g. Mpesa
- Easy credit facilities e.g. unsecured loans
- Customer service/care departments-offering personalized advice to customers
- Liberalization of foreign exchange dealings by licensing forex bureaus for customers to get foreign exchange
- Provision of banking services by micro-finance institutions e.g. KWFT, faulu Kenya, through their front office service activities (FOSA)

- 8.
- Use of ATMS, which have enabled banks to offer banking services to clients round the clock
  - Networking of branches: which enables clients to carry out banking transactions in any branch of the bank
  - E – banking where customers are able to carry out some banking transactions in any branch of computers on – line
  - M – banking, where customers can carry out some transactions by use of mobile phones e.g. salary deposits alerts, airtime top – up, statement and cheque book ordering e.t.c.
  - Introduction of a variety of products to attract such as easier credit facilities i.e. unsecured loans
  - Customer care departments that offer personalized services advice to the banks clients
  - Use of credits cards which can be used to make withdrawals from ATMs and some can debit cards to make purchases i.e. supermarkets
  - Relaxation on some of the conditions relating to operations of account e.g. removal of restrictions on minimum opening and operating balances and number of withdrawals for saving account