

MONEY AND BANKING

MARKING SCHEME

1. **1995 P1**
- One cheque is drawn by customer showing total amount payable to number of people
 - A list of individual names, their account numbers and total amount Payable
 - The bank then makes payments to individual account
2. **1995 P1**
- It is faster means of sending money
 - The sender can be compensated in case the money is lost
 - It is faster way of sending money
 - It is a convenient way of sending money
 - It can be easily traced when it gets lost
3. **1995 P2**
- Providing capital to existing new business
 - They carry feasibility studies for potential investors
 - They provide advisory services on how to set up and ran invest projects
 - They support investments in areas which would otherwise not be financed by other financial institutions due to risks involved
 - They generate revenue to the government to pay taxes or dividends to the government
 - Create employment opportunities
 - Mobilization of savings investments
4. **1996 P1**
- Involve double coincidence of wants
 - Some items cannot be conveniently divided into smaller units
 - Some goods are too heavy
 - Difficult to determine fair rate of exchange
5. **1996 P2**
- The traders can withdraw money at any time without notice
 - Cheques are used for payments instead of cash
 - Traders can arrange for overdrafts facilities with the management of the Bank
 - The bank can pay on behalf of the trades such as standing orders
 - There is no minimum balance required in the account
 - Purchases can be made post dated cheques

6. **1997 P1**

Statement	True	False
(a) Accepts deposits from members of public	x	
(b) Provides safe custody for valuables	x	
(c) Issues currency for use in the country		x
(d) Controls money supply in the country		x
(e) Lends money to the members of the public	x	

7. **1997 P2**

- Accepting deposits from commercial bank
- Advice commercial banks on financial matters
- Supervises the operations to commercial banks
- Facilitates the clearing of cheques
- Gives loans to commercial banks operations
- Sale of foreign currency

8. 1998 P1

- Divisibility
- Portability
- Malleability
- Acceptability
- Homogeneity
- Stability
- Durability

9. 1998 P2

- Commercial banks give short term descending bill while NBF don't
- Commercial banks give loans for a variety of purposes
- Commercial banks offer current facilities NBF do not offer such Services, commercial banks issues cheques
- Commercial banks clear cheques through the clearing houses while NBF do not
- Commercial banks provide means of payments NBF do't
- Commercial bank exchanges foreign currency NBF do't
- Commercial banks provide locker facilities

11. 1999 P1

- Bank rate
- Open market operation
- Reserve ration
- Credit rationing
- Moral persuasion
- Selective control
- Compulsory deposit
- Special instruction
- Margin requirement

12. 1999 P2

- Bank rates.
- This is the rate at which the central bank lends to commercial banks. It can be varied to encourage or discourage credit/ raising/ lowering bank rate
- Open market operation
- The central; bank may sell or buy securities in the market. Selling securities reduces the money supply (for lending)
- Special deposits/ compulsory deposits/ minimum reserve requirements
- The central bank require other financial institutions to have a certain percentage of deposits deposited in the central bank which can be varied to encourage / discourage credits

- Cash ratio/ liquidity ratio

The ration of cash/ deposits may be carried to control money supply credit which can be increased to reduce money supply/ can be decreased to increase money supply.

- Moral persuasion/ Liquid assets persuasion
- The central bank may appeal/ request/ persuade/ restrain leading/ credit rationing. The commercial banks may be required by the central bank to approve loans only for special types of projects e.g. agriculture, manufacturing e.t.c
- Direct action/ directive/ instructions
- Central banks can use its authority to direct/instruct the financial Institutions to lend more/ less/ apply credits squeeze/ credit expansions margins requirements.

13. 2000 P1

- Mobilize long term saving
- Provide long term loans
- Provide investment opportunities
- Provide working capital to the public limited companies by investing in shares
- Provide education on investment opportunities that they offer guaranteeing loan from external source

14. 2000 P2

- Collateral security valued by appointed valuers
- Account from leading bank at least six months old
- Bank statements for the last six months busy account to determine credit worthiness
- Quarantine to be followed in case of default
- Intended purpose of the loan
- Agreement on the repayment
- Appraisal fee/ charge to determine credit worthiness by a bank

15. 2001 P1

- High rate of interest charged on these loans
- Poor profits as a result of poor economy
- Individuals and firms may have cheaper source of loans
- Involve lengthy formalities
- Many people fear the consequences of failing to pay the loans
- Many people do not have recognized property that they can offer as security for loans

16. 2002 P1

- Lack of measure of value
- Some commodities are indivisible
- Requires double coincidence of wants
- Some commodities are difficult to carry
- Problems of storage
- Lack of standard deferred payment
- Lack of unit of account

17. 2002 P2

- Accepts deposits for safekeeping

- Licensing the operations of commercial banks
- Supervision of banking operations
- Provide clearing hoses facilities for cheque
- Giving commercial banks, loans as the tender of the last resort
- provides advisory services, banking economic matters
- Central bank is a source of currency for commercial bank operations
- Buying and selling foreign currency from commercial banks
- Acts as a mediators for commercial banks in case of dispute between them
- It repatriates excess foreign currency on behalf of commercial banks
- Statutory management during financial crisis

18. 2002 P2

- It is an expensive source of finance as the interest charges are very high
- Frequent use of overdraft use of overdraft could be sign of poor management hence it make it difficult to obtain credit. Bank may recall the overdraft any time
 - Overdraft are not easily available unless one is well known
 - Interest repayment cannot be planned for with certainty
 - Limited access- overdrafts is only given to current account holders only
 - Security – the lenders may require security/ property pledge
 - Limited amount are hence unsuitable for long term financing
 - Repayment patterns are unplanned hence any deposits made in the account are assumed to be repaying the overdraft
 - Short repayment period which affects the cash flow of firm adversely

19. 2003 P1

- Accept government deposits for safe keeping
- Issues currency on behalf of government
- Arranges and pays public debt on behalf of the government
- Advises government

20. 2003 P2

- They do not provide current account (facilities) while commercial banks provide the facilities. In commercial banks current A/C holders use cheques/ commercial bank issues cheques while NBFI don't
- They provide long term loans while commercial banks provide short term loan while commercial provide short term loan / overdraft / discounting bills of exchange NBFI don't
- Non- bank financial institutions are not regulated supervised by central bank while commercial banks are regulated by central banks/ supervised/ banking act.
- The NBIFs lend money for specific purpose/ specific sector while commercial bank provides general finance
- Commercial bank credit while NBIF don't create credit
- Commercial bank means of payment / transfer of money while NBFIs don't
- Commercial bank exchange foreign currency while NBFI don't
- Commercial bank provides safe (for later bankers) while NBFI don't
- Commercial bank gives letters of credit in IT while NBFI don't
- Commercial bank provides lockers facilities/ safe custody for valuables while NBFIs don't

21. 2003 P2

- One can give post dated cheques if need arises, thus enabling clearing of debts at

a future date.

- One can make withdrawals as many times as they wish thus enabling them to access money when needed
- One can get issues of regular statements thus enabling them to be aware of their bank balances.
- One can withdraw large sums of money without notice, which convenient for the business.
- One can get bank overdraft facility when one does not have enough cash.
- One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account.
- Safety is enhanced as one pay creditors using a cheque and does not have to go to the bank.

22. 2004 P1

Car Costs 20,000 dirams

4 dirams = 1 US dollar

Amount of Kshs paid

$$\frac{20,000}{4} = 5,000 \text{ US dollars}$$

Amount paid = Kshs 350,000

23. 2004 P1

- issuing of currency
- Banker to the government
- Banker to controller commercial
- Lender of last resort
- Controlling credit
- Management of foreign exchange reserves
- Implementing government monetary policy
- Management of public debts

24. 2004 P2

- pay creditors cheques, hence safety and does not have to go to the bank
- They can get bank overdraft facility when they do not have enough cash
- They do not have to maintain minimum balance unlike in other accounts hence can use all the funds in the account
- They can withdraw large sums of money without notice convenient for business
- They can make withdraws as many times as they wish thus enabling them to access money when needed.
- They can give post dated cheques if need arises, thus enabling them to be aware of their bank balances
- one can withdraw large sums of money without notice, which is convenient for the business
- One can get bank overdraft facility when one does not have enough cash
- One does not have to maintain minimum balance unlike in other accounts hence can use all the funds in the accounts
- Safety is enhance as one pay creditors using a cheque and does not have to go to the bank

26. 2005 P2

- Safe keeping of valuables items. Commercial bank acts as custodian of

valuable item for the clients such as wills, title deeds, jewellery etc.

- They lend money to their clients in form of loans, overdrafts or discounting bills of exchange and promissory notes.
- They receive money deposits from their clients commercial banks operate 3 types of accounts for this purpose namely savings, current and fixed deposit account.
- They facilitate transfer of money through cheques, credit transfers standing orders etc.
- They advise their clients on financial and investment matters.
- They facilitate international payments through letters of credit.
- They act as management trustees of properties of business of deceased clients.
- They act as referees for their clients during a credit status inquiring.

27. 2006 Q21 P1

- a) Providing finances to reduce budgetary deficits
- b) Provide loans for development projects.
- c) Provide finance to correct and adverse balance of payment.
- d) Provide technical expertise to support development.

28. 2006 Q6a P2

- i. Used / serves as a medium of exchange. Money can be exchanged for goods/services removing the problem of barter/ can be used to buy goods/ serves as it is generally accepted as a medium of exchange.
- ii. Measure of value: Value of goods / services can be compared / estimated / determined/ calculated / assigned.
- iii. Store of value: value of goods / services can be stored in form of goods / services are recorded in terms of money.
- iv. Standard of deferred payments / money assist of conduct business on credit / where payments are made later.
- v. Unit of account. Values of goods /services are recorded on term of money.

29. 2007 Q8 P1

Account to match the descriptions is

- a) Savings account
- b) Current account
- c) Fixed deposit account
- d) Savings account

30. 2007 Q23 P1

Benefits if using Automated Teller Machines (ATMs) include)

- a) Saves time
- b) Withdrawing any time
- c) Conveniently placed
- d) Access to account balances / extra information
- e) Can pay utility bills
- f) Deposits any time
- g) Since ATM cards can be used to buy goods/ services
- h) Cheaper to operate
- i) Safer to use
- j) Highly portable
- k) Withdrawals can be done for one else behalf

31. 2007 Q17 P1

Central Bank of Kenya control amount of money in circulation by:

- a) Instructing commercial banks to only lend in priority areas/ selective credit control
- b) Practicing domestic harrowing/ open market operations
- c) Increasing interest rates on loans advanced by commercial banks/ bank rate increases
- d) Requirement that commercial banks maintain a cash ration
- e) Liquidity ratio
- f) Special/ compulsory deposits
- g) Margin requirements (higher/ lower collateral requirements)

32. 2008 Q5a P2

(a)

- Compulsory deposits/special deposits/increase minimum reserve requirements. The Central bank may require that commercial banks deposit a certain amount of their cash with the central bank.
- Selective credit control/credit rationing. The government through the central bank may require that certain sectors of the economy be assisted financially.
- Open market operations. The government may instruct the central bank to sell government securities/stocks/bonds in the open market/stock exchange.
- Raise interest rates - High interest rates may be offered for savings to encourage more deposits.
- Raise cash/liquidity ratio thereby leaving commercial banks with less money to lend.
- Raising the bank rate leading to credit/loans becoming more expensive.
- Raising margin requirement to discourage borrowing.
- Moral suasion by government appealing to commercial banks to reduce lending to the public.
- Reducing government expenditure by suspending some projects.
- Raising taxes to reduce disposable income hence lower purchasing power.
- Surplus budgeting by spending less than the income raised.

(Any 4x2=8 marks)

33. 2008 Q13 P1

- Personal identification.
- Initial deposit required.
- A letter of introduction from an existing customer.
- Physical contact address.
- Be of majority age/above 18 years old.
- Passport size photographs.

(Any 4x1=4 marks)

34. 2009 Q7 P1

- (i) Gives long term loans

- (ii) Provides finance for capital development / specific projects
 - (iii) Low interest rates.
 - (iv) Assist in management of the project.
 - (v) Accept lower collateral values.
 - (vi) Give a longer grace period..
- Any 2 x 2 = 4 marks

35. 2009 Q5a P2

- (a) Explain 4 services that not the Central Bank of Kenya army after as a banker to commercial banks. (8 mks)
- i) Advising/ information / education / publishing journals for commercial banks or financial matters.
 - ii) Banker to commercial banks / accepts deposits by being in custody of the reserves received from commercial basis.
 - iii) Supervising / monitoring the operations of commercial banks banking act
 - iv) Providing a central cleaning horse where commercial banks settle debts due to each other / for cheques.
 - v) Being a tender of the last resort to the commercial banks.
 - vi) Foreign exchange / buy / sell foreign currency to / for commercial banks.
 - vii) Icore of currency for commercial banks operations / replaces old currency / issue new notes /coins.
 - viii) Mediation /arbitration in case of disputes (between commercial banks)
 - ix) Licensing— the operations of commercial banks.
 - x) Repatriation of excess foreign currency / profits (broad) on behalf of commercial banks.
 - xi) Statutory management during financial crisis / receiverships.

36. 2010 Q7 P1

- Appropriate functions are:
- i) Management of national debt
 - ii) Lender of last resort
 - iii) Credit control
- (3 x 1 = 3 mks)

37. 2012 Q7 P1

Tools of monetary policy that may be used by a government to reduce excess money in circulation include:

- a. Moral persuasion to reduce money supply
- b. increase compulsory deposit required
- c. Open market operations - to sell government securities through the Central Bank.
- d. Bank rate - raising interest rate on loans to banks
- e. Cash/Liquidity ratio can be raised for commercial banks.
- f. Directives - can be given to commercial banks to reduce money supply
- g. Raising margin requirement - raise the value of assets required as security for loans.
- h. Selective credit control - freeze tending to some sectors of the economy.

(Any 4 x 1 = 4 marks)