MONEY AND BANKING

Barter trade

This is a form of trade where goods and services are exchanged for other goods and services.

Benefits

1. ***Satisfaction of wants:*** And individual is able to get what he or she needs.
2. ***Surplus disposal:*** an individual or country is able to dispose off its surpluses.
3. ***Social relations:*** it promotes social links since the communities trade together.
4. ***Specialization:*** some communities shall specialize in a particular commodity.
5. ***Improved living standards:*** this is enhanced by receiving what one is unable to produce.

Limitations

- ***Lack of double coincidence of wants:*** - it is difficult to find two people with the need for each other's product at the same time.
- ***Lack of store of value/ perishability of some commodities:*** - some goods are perishable thus their value cannot be stored for a long time for future purposes e.g. one cannot store vegetables for exchange purposes in future.
- ***Indivisibility of some commodities:*** -it is difficult to divide some products like livestock into smaller units to be exchanged with other commodities.
- ***Lack of standard measure of value:*** - It is not easy to determine how much one commodity can be exchanged for a given quantity of another commodity.
- ***Transportation problem:*** It is difficult to transport bulky goods especially when there is no faster means of transport.
- ***Lack of a standard deferred payment:*** - The exchange of goods cannot be postponed since by the time the payment is made, there could be fluctuation in value, demand for a commodity may not exist and the

nature and quality of a good may not be guaranteed. It may be therefore difficult what to decide what to accept for future payment.

- ***Lack of specialization:*** - Everyone strives to produce all the goods he or she needs due to the problem of double coincidence of wants.
- ***Lacks unit of account-*** it is difficult to assess the value of commodities and keep their record.

MONEY SYSTEM

Money is anything that is generally accepted and used as a medium of exchange for goods and services.

Features/ characteristics of Money

For anything to serve as money, it must have the following characteristics:

- ✓ ***Acceptability:*** The item must be acceptable to everyone.
- ✓ ***Durability***: The material used to make money must be able to last long without getting torn, defaced or losing its shape or texture.
- ✓ ***Divisibility:*** Money should be easily divisible into smaller units (denominations) but still maintains it value.
- ✓ ***Cognizability:*** The material used to make money should be easily recognized. This helps reduce chances of forgery. It also helps people to differentiate between various denominations.
- ✓ ***Homogeneity:*** Money should be made using a similar material so as to appear identical. This eliminates any risk of confusion and forgeries.
- ✓ ***Portability:*** - Money should be easy to carry regardless of its value.
- ✓ Stability in value: The value of money should remain fairly stable over a given time period.
- ✓ ***Liquidity:*** - it should be easily convertible to other forms of wealth (assets).
- ✓ ***Scarcity: -*** It should be limited in supply. If it is abundantly available its value will reduce.
- ✓ ***Malleability-*** the material used to make money should be easy to cast into various shapes.
- ✓ ***Not easy to forge-*** money should not be easy to imitate.

Functions of Money

- ***Medium of exchange:*** It is generally acceptable by everyone in exchange of goods and services. It thus eliminates the need for double coincidence of wants.
- ***Store of value:*** It is used to keep value of assets e.g. surplus goods can be sold and then money kept for future transactions.
- ***Measure of value***: Value of goods and services are expressed in money form. Performance of businesses is measured in terms of money.
- ***Unit of account:*** It is a unit by which the value of goods and services are calculated and records kept.
- ***Standard of deferred payment:*** it is used to settle credit transactions.
- ***Transfer of immovable items (assets):*** Money is used to transfer assets such as land from one person to another.

DEMAND FOR MONEY

This is the tendency or desire by an individual or general public to hold onto money instead of spending it. It also refers to as liquidity preference.

Money is held by people in various forms:

- Notes and coins
- Securities and bonds
- Demand deposits such bank current account balances.
- Time deposits such as fixed account balances

REASONS (MOTIVES) FOR HOLDING MONEY

Transaction Motive: Money is held with a motive of meeting daily expenses for both the firms and individuals. The demand for money for transaction purpose by individuals depends on the following factors:

- Size/level of individual's income: The higher the income of and individual, the more the number of transactions thus high demand for transactions.
- Interval between pay days/ receipt of money: if the interval is long, then high amount of money will be held for transaction reasons.
- Price of commodities: if the prices are high, the value of transactions will also increase thus more money balances required.
- Individuals spending habits-people who spend a lot of money on luxuries will hold more money than those who only spend money on basics.

- Availability of credit-people who have easy access to credit facilities hold little amount of money for daily transactions than those who do not have easy access to credit.

The transaction motive can further be divided to;

- **Income motive i.e** holding money to spend on personal/ family needs.
- **Business motive i.e** holding money to meet business recurring needs such as paying wages, postage, raw materials. etc

Precautionary Motive: Money is held in order to be used during emergencies such as sicknesses.

The amount of money held for this motive will depend on the factors such as:

- **Level of income-** the higher the income the higher the amount of money held for precautionary motive.
- **Family status-** high class families tend to hold more money for precautionary motive than low class families.
- **Age of the individual-** the aged tend to hold more money for precautionary motive than the young since they have more uncertainties than the young.
- **Number of dependant-** the more the dependants one has, the more the money they are likely to hold for precautionary motive.
- **Individual's temperament-** pessimists tend to hold more money for precautionary motives than the optimists because they normally think things will go wrong.
- **Duration between incomes-** those who earn money after a short time are likely to keep less money than those who earn money after a long time.

Speculative Motive: Money is held to be used in acquiring those assets whose values are prone to fluctuations such as shares/ money is held anticipating fall in prices of goods and services. This depends on the following:

- The wealth of an individual
- The rate of interest on government debt instruments
- Interest on money balances held in the bank.
- How optimistic or pessimistic a person is.

SUPPLY OF MONEY

This is the amount of money/ monetary items that are in circulation in the economy at a particular period of time. They include the following;

1. Total currency i.e. the coins and notes issued by the central bank.
2. Total demand deposits: money held in current accounts in banks and are therefore withdrawable on demand.

Factors influencing supply of money

- ***Government policies:*** If there is more money in the economy, the government will put in place measures to reduce the supply such as increasing interest rates.
- ***Policies of commercial banks:*** The more the loans offered by commercial banks, the more the amount of money in circulation.
- ***Increase in national income:*** increase in national income means that more people will be liquid due to increase in economic activities.]
- ***Increase in foreign exchange:*** The foreign exchange reserves will increase thus supply increases.

BANKING

This is the process by which banks accept deposit from the public for safe keeping and lending out the deposits in form of loans.

A bank is a financial institution that accepts money deposits from the public for safe keeping and lending out in terms of loans.

COMMERCIAL BANKS

These are financial institutions that offer banking services with a profit motive. Their activities are regulated by the Central bank.

Functions of commercial banks

- ***Accepting deposits:*** They accept deposit from members of the public inform of current accounts, savings account and fixed deposit accounts. Such accounts help individuals to keep money safely.
- ***Provision of safe means of payments:*** They provide safe and reliable means of payment such as cheques, bank drafts, credit transfers, electronic funds transfers etc.
- ***Provision of loan facilities:*** They provide loans to members in form of short term and long term. These loans are repayable with interests thus income to the banks.

- ***Facilitates foreign exchange payments:*** They provide foreign exchange that is used in international trade. They also make payments on behalf of their customers.
- ***Provision of safe keeping of valuables:*** They provide security for valuables to their customers at a fee
- ***Discounting bills of exchange:*** This is process by which a bank accepts bills of exchange and promissory notes from its customers in exchange of cash less than the face value of the bill or note.
- ***Provision of financial information:*** - They advice their clients on financial matters affecting their businesses such as investment option and wise use of loans.
- ***Money transfer:-*** They provide varied, safe and reliable means of money transfer. Such means include cheques, standing orders, credit transfers, bank drafts, letters of credit, credit cards, travelers cheques etc.
- ***Act as guarantors and referees:*** - They act as guarantors to their customers who want to acquire credit facilities from other financial institutions.
- ***Act as intermediaries:*** - They act as a link between the savers and borrowers.
- ***Credit creation:*** - This is the process of creating money from the customer deposits through lending.
- ***Provision of trusteeship:*** - They can manage a business on behalf of the client especially if the client does not have managerial skills. They can also manage the assets of the deceased client if there was no will.

TYPES OF ACCOUNTS OFFERED BY COMMERCIAL BANKS

Current account

This is an account where money deposited can be withdrawn on demand by the customer by means of a cheque. This means that money can be withdrawn at any time during the official working hours so long as the account has sufficient funds.

This account is also referred to as demand deposits.

Features characteristics of current accounts

- Deposits of any amount can be made at any time.
- Balances in this account do not earn any interest.
- The account holder is not required to maintain a minimum cash balance in this account
- Withdrawals can be at any time without giving and advance notice as long as the customer has sufficient funds.
- Cheque books are issued to the account holder to be used as a means of payment/ cheques are usually used to withdraw money from the account.
- Monthly bank statements are issued to the account holder.
- Overdraft facilities are offered to the account holders' i.e the bank can allow customers to withdraw more money than they have in their accounts.

Advantages

- No minimum balance is maintained hence the account holder can access all his/her money.
- Withdrawals can be made at any time.
- Transactions are made easier by use of cheques for example; one does not have to go to the bank in order to make payment.
- Overdraft facilities are available..
- It is possible to deposit any amount at any time during the office hours.
- Use of cheques as means of payment serves as evidence of payments made.
- Payments can be done even if there are insufficient funds in the account using post dated cheques.

- The account holder can withdraw any amount at any time without notice as long as there are sufficient funds in the account.

Disadvantages

- Lengthy procedures of opening the account.
- The account holder does not earn any income since the balances in the current account does not earn interest.
- Initial deposit when opening the account is usually high hence discourages prospective customers.
- Customers are not encouraged to save since they can access their money at any time.
- Ledger fees are charged on the account making the operations of the account expensive.

Savings account (deposit account)

This is an account operated by individuals and firms that have money to save.

Features

- There is minimum initial deposit that varies from bank to bank.
- A minimum balance is maintained at all times.
- The withdrawals are up to a certain maximum within a given period. Withdrawal above this maximum will require notice.
- Account holders are issued with a pass book or a debit card (ATM card) for deposits and withdrawals.
- Overdraft facilities are not allowed.
- Ordinarily, withdrawals across the counter can only be done by the account holder.
- The balance on the account above a certain minimum earns some interest.

Advantages

- Customers are encouraged to save because of the restricted withdrawals.
- There are relatively low banking charges.
- Initial deposit is usually low as compared to other accounts.
- The balances earn interest to account holder hence an incentive to save.

- ATM facilities have made account operations very convenient to customers.

Disadvantages

- A minimum balance must be maintained at all times and the customer is denied access to that money.
- For across the counter withdrawals, it is only the account holder who can withdraw cash.
- Withdrawals are restricted and sufficient notice is required before large amounts are withdrawn.
- The account holders do not enjoy services such as cheque books and overdraft facilities like the current account holders.
- Easy access to the money through ATM cards encourages overdrawals.
- Anybody who knows the pin of the card (ATM card) can withdraw money from the account.

Requirements for opening an account

The following are some of the requirements for opening either a current account or a savings account:

- Photocopies of identification documents such as National Identity Card or Passport.
- Passport size photographs (number varies from bank to bank). Some banks are nowadays taking the photographs instead of the customers providing them.
- For current account holders, an introductory letter from an existing customer from the prospective customer's employer.
- Filling in the application form provided by the bank.
- Signing of the specimen signature cards. Usually two.

Once these requirements are fulfilled, the bank allocates the customer an account number, upon payment of an initial deposit.

Fixed deposit account

This account is also known as **time Deposit account.** It is maintained by those who have money not meant for immediate use.

Once money is deposited, there are no withdrawals until the time expires.

Advantages

- Interest earned is relatively high as compared to savings account.
- There are no bank charges to the account holder.

- Money held in fixed deposit account can be used as security to acquire bank loans.
- Restricted withdrawals encourage savings.
- The account holder has time to plan for the deposited money.

Disadvantages

- Access to money is not allowed until the end of the agreed period.
- Interest is forfeited if there is pre-mature withdrawal.
- The minimum amount of money for this account is high.
- The customer is not allowed to deposit more money in this account.
- A notice is required if the customer wants to terminate the contract before expiry date.
- The customer is denied the use of the deposited funds before the expiry of the period.

REQUIREMENTS TO OPEN AND OPERATE A BANK ACCOUNT

1. Identification documents such as National Identification Card, Passport and Driving License.
2. Reference letter from employer or and existing customer.
3. Filling an application form giving the information about the customer.
4. Submission of a specimen signature to be held by the bank.
5. An initial deposit is paid and the account becomes operational.

NON- BANK FINANCIAL INSTITUTIONS

These are financial institutions that offer finances for development purposes to individuals and organizations.

These institutions address themselves to the needs of specific sectors in the economy.

They offer the finances inform of either short term or long term loans.

The following are some of the non-bank financial institutions in Kenya

- Development banks
- Building societies
- Finance houses
- Savings and Credit Co-operative Societies
- Micro finance organizations
- Insurance companies
- Pension Funds' Organizations
- Hire Purchase Firms

- **Housing Finance Companies**

They are mainly formed to finance housing activities that is they either put up houses and sell to the individuals or offer mortgage finance to those who wish to put up their own houses. They includes Housing Finance Corporation of Kenya (HFCK), National Housing Corporation (NHC)

- **Development Finance Institutions**

These are development banks which are formed mainly to provide medium term and long term finances, especially to the manufacturing sector. They perform the following functions

- Financing people who wishes to start either commercial of industrial enterprises, as well as the existing enterprises in the above sectors for expansion
- Offering training services through seminars and workshops to equip the entrepreneurs' with the relevant skill in industrial and commercial sectors
- Offer advisory services to those people wanting to start or expand their businesses
- Acting as guarantors to people wishing to take loan from other lending institutions to help them expand their business

They includes the following Kenya Industrial Estates (KIE), Development Finance Company of Kenya (DFCK), Industrial Development Bank (IDB), Industrial and Commercial Development Corporation (ICDC)

- Savings and Credit Co-operative societies

These are co-operative societies that are formed to enable members save and obtain loans at most conveniently and favorable conditions. They are formed by those engaged in similar activities. They includes: Mwalimu Savings and Credit Co-operative Societies; Afya Savings and Credit societies; Harambee Savings and Credit Societies

- **Insurance companies**

These are companies that assist in creating confidence and sense of security to their clients as well as offering financial assistance to their clients. Their functions include;

- Enable the policy holders to save through their schemes
- Provide finances to their policy holders in form of loans
- Offer guarantee services to the policy holders wishing to obtain loans from other non-bank financial institutions
- Provide advisory services to the policy holders on security matters
- Provide finances to meet the expenses incases of loans

They includes the following: Stallion Insurance Company; Madison insurance company; Blue shield insurance company

- **Micro Finance Companies**

These are financial companies formed to provide small scale and medium size enterprises with finance. They also carry out the following functions

- Offer advisory services to their clients in matters such as business opportunities available and how to operate them.
- Encourage the clients to carry out business activities by offering loans to them
- They encourage the savings by advancing loans to the individual member of a certain group
- They supervise, monitor and advise those whom they have given loans

They includes the following: Kenya Women finance Trust (KWFT), Faulu Kenya

- **Agricultural Finance Houses**

These are institutions formed to promote the agricultural sector. They carry out the following

- Giving loans to farmers
- Offering supervisory and training services to the loaned farmer
- Offering technical and professional advice to loaned farmer
- Carry research and come up with better ways and means of agricultural sector
- Coming up with projects that would open up new areas for agriculture

Differences between commercial banks and non-bank financial institutions

Commercial Banks	Non-Bank Financial Institutions
(i) Offer all types of accounts	(i) Offer only two types of accounts savings and fixed deposit
(ii) Provide both short term and medium term finances to their customers	(ii) Mainly provide medium term and long term finances
(iii) Their finance is not restricted to any sector	(iii) Their finance is restricted to a particular sector
(iv) May offer foreign exchange services	(iv) Do not provide foreign exchange services
(v) Their finance is mainly for working capital	(v) They provide capital for development
(vi) Participate in clearing house as they offer cheque	(vi) Do not participate in clearing house since they don't offer
(vii) Offer facilities for safe keeping of valuable items such as title deeds	(vii) Do not offer facilities for safe keeping of valuable items
(viii) Always in direct control of the central bank	(viii) Not usually in direct control of the central bank
(ix) May offer overdraft facilities to their customers	(ix) Do not offer overdraft facilities to their customers

THE CENTRAL BANK

This is a bank established by the government through the act of the parliament to manage and control the monetary matters in the country. It was formed to perform the following functions;

- **Issue currency in the country**, which includes both new notes and coins to replace the worn-out ones
- **Banker to the commercial banks**, by ensuring that all the commercial banks in the country operate an account with them
- **Being the government 's bank**, by offering banking services to the government which enables the government to operate an account with them
- **Advisor to the government on financial issues** in the economy
- **Controller of the commercial banks** on how they carry out their functions in the economy to ensure that their customers are served well

- **Provide links with other central banks in other countries**, facilitating financial relationships. It also provide a link between the country and other financial institutions such as IMF
- Maintain stability in the exchange rates between the local currencies and the foreign ones.
- **Act as the lender of the last resort** to the commercial banks to enable them meet their financial obligations when need arise
- **Facilitates the clearing of cheques** between different commercial banks through its clearing house (a department in the central bank)
- **Administering of the public debt** by facilitating the receipt and providing a means through which the government pays back the borrowed money
- **Control of the monetary system in the country in order to regulate the economy**. In doing this they put in place ***various monetary policies*** that can either expand the economic activities in the country or depress them.

  Monetary policy refers to the deliberate move by the government through the central bank to manipulate the supply and cost of money in the economy in order to achieve a desirable economic outcome. They do this through the use of various tools of monetary policies which includes the following: Bank rates; Open market Operation (OMO); Cash Liquidity ratio requirement; Compulsory deposit requirement; Selective credit control; Directives; Request

  - ✓ **Bank rates**

  They may increase or decrease the interest rate at which they lend to the commercial banks to enable them increase or decrease the rate at which they lend money to their customers in the economy to enable the government achieve the desirable economic development in the country

  When they increase their lending interest rate, the commercial banks also raise their lending rates to the consumers to reduce the number of people obtaining loans, leading to a reduction of money supplied in the economy.

  When they decrease their lending interest rate, the commercial banks also decreases their lending rates to the consumers, increase the amount of money supplied in the economy

  - ✓ **Open Market Operations (OMO)**

  This is where they regulate the supply of money in the economy by either selling or buying the government securities (treasury bills or bonds) in the open market. That is when they want to increase the supply in the economy, they buying the securities from the members of the public who had bought them to increase more supply of money in the economy.

When they want to reduce the amount of money in circulation they will sell the government security to the public in the open market, to mop up/reduce the excess supply in the economy

The payment of the securities takes money from the individuals accounts in the commercial banks, reducing the amount that the individual can use in the economy, while when buying the central bank pays the security holders in their respective accounts in the commercial banks, increasing the amount that they can use in the economy

- ✓ **Cash/liquidity ratio requirement**

Here the central bank expect the commercial bank to keep a certain proportion of their total deposits in form of cash to enable them meet their daily needs, while the rest are held in liquid assets. This proportion can be reduced by the central bank to reduces the amount of money held by the commercial banks in order to reduce the amount of money spent by the commercial banks in cash, reducing the amount of money in supply, or they may increase the proportion to be held by the commercial banks to enable them increase the amount of money they spent in cash, increasing the amount of money in supply

Cash ratio = $\frac{\boldsymbol{Cash\ Held}}{\boldsymbol{Total\ Deposits}}$

- ✓ Compulsory deposit requirements

The commercial banks are required to maintain a certain amount of deposits with the central bank which will be held in a special account where the money stays frozen. This reduces the amount of money that the commercial banks hold and are able to spend in their operation, influencing the supply of money in the economy.

The deposit may be increase to reduce the amount of money in the commercial banks, or reduced to increase the amount of money in the commercial banks

- ✓ **Selective credit control**

The central bank may issue a special instruction to the commercial bank and other financial institution only to lend more in a particular sector to control the amount of money reaching the economy. The instruction may be removed, if the bank feels that the supply in the economy has reduced and needs to be increased

- ✓ **Directives**

The central bank may issue a directive to the commercial banks on the interest rate they should charge on their lending and to increase or reduce the margin requirement for borrowing to make it harder or easier for the customers to obtain loan.

Margin requirement is the proportion of money expected to be raised by the client to finance the project he/she wants to obtain the loan for, before being given a loan to complete the project with.

- ✓ **Request (Moral suasion)**

The central bank may appeal to other financial institutions to exercise restrain in their lending activities to the public to help in controlling the money supply

Trends in Banking

These are the positive changes that have taken place in the banking sector to improve their service deliveries to their customers. They include;

- ❖ **The use of Automatic Teller Machines** (ATMs), which has made it possible for the customers to access their money any time of the day. The ATM cards that are used for withdrawals from the ATM machines can also be used as a debit card to make purchases.
- ❖ **Networking all their branches**, which has enable the customers to carry out their transactions in any of the branch
- ❖ **E-Banking,** which is the banking through the internet. This has made it possible for the customers to transact their financial businesses on-line
- ❖ **Relaxation of some of the conditions on opening and operating some of the accounts** to make them be more attractive to their customers.
- ❖ **Offering varieties of products** which includes easier credit facilities to their customers to attract more customers
- ❖ **Liberalization of foreign exchange dealings by licensing forex bureaus** to offer services to the customers, improving the accessibility to the service
- ❖ **Improving the customers care services**, with some bank setting up a departments known as the customer care department to offer detailed assistance to their customers.
- ❖ **Allowing non bank financial institutions to offer banking services** to the members of the public, for example; KWFT, SACCOs, FOSA, Faulu Kenya, etc
- ❖ **Mobile Banking services (M-Banking),** which allows the customers to carry out their financial transactions over their mobile phones. It has brought about several benefits/ advantages to their customers which includes;

<u>Advantages of m-banking</u>

- Easy transfer of funds from one account to the other in the same bank (inter account transfer)
- Easy transfer of money from ones account to his mobile phone for other transactions

- Ability to check ones account balance in the bank with ease
- Easy to monitor your financial transactions by checking your transaction details over the phone
- Easy payment of the bills such as electricity bill, Dstv bills, etc and other wages
- Ability to transfer money from one mobile number to other in collaboration with the service providers
- Easy request for new cheque books and bank statements from the banks
- Able to top up air time to your mobile phones in collaboration with the service providers
- Reduced risk of carrying large sums of money in cash or cheques that may be stolen

However this development has also come with its challenges, which includes;

Disadvantages of m-banking

- Registration to enjoy all these services must physically be done in the banking hall, which subject the customers to stress queues of the bank
- Only the registered mobile number can carryout these transactions which limits the customer to only using one number
- Users requires a mobile phone with a screen that can display the transaction which a times some may not a ford
- Mobile phones can easily be lost or stolen from the owner, inconveniencing him from carrying out the transactions
- Bank transaction information may load slowly, which may makes it expensive for the user
- Possibility of transferring the funds to a wrong account, due to error in typing of the account number

❖ Introduction of agency banking, which has made them to make their services to be more accessible to even areas where they may have not put up a banking hall.
Agency banking is whereby a retail stores, supermarket, or any other commercial businesses are authorized by the financial institutions to carry out financial transactions on their behalf. They may offer the following services

- Receiving customer deposits
- Offering withdrawal services
- Transfer of funds for customers
- Pay bills for the customers
- Balance inquiry services
- Opening new accounts for the customers
- Fill loan application forms for them

Advantages of agency banking

- ✓ Reduction of set up and delivery cost to the banks, which in turn passes to the customers in form of reduced cost of accessing services
- ✓ Time saving as the agents are located close to the customer and the customer may carry out other transactions as he withdraw the money
- ✓ More convenient for the customer to bank with their local retailers other than the traditional banking halls
- ✓ Enable the bank to reach far places within the country

Exercises on money and banking

Paper 1

1. Give four advantages of barter trade.
2. Highlight four services offered by the central bank of Kenya to the commercial banks.
3. State four methods through which commercial banks can transfer money.
4. State any four current developments that have taken place in the banking sector.
5. Outline four tools of monetary policy used by the central bank to control money supply.
6. Outline four factors that may have led to the downfall of barter trade.
7. Highlight two factors that may influence:
    a. Transaction motive.
    b. Speculative motive.
8. Mention four functions of commercial banks in an economy.
9. Outline three factors that influence the supply of money.
10. Give four characteristics of money.
11. The following are some of the accounts available to customers in Kenya banking industry: Current account, Savings account and Fixed deposit account. Give the account that corresponds to each of the description given below.

	Description	**Type of account**

(a)	Account holders required to deposit a specific initial amount as well as maintaining a minimum balance.	
(b)	Account holders may deposit and withdraw money whenever they want without maintaining a minimum balance.	
(c)	Banks pay interest on deposit at comparatively higher rates.	
(d)	Money may be deposited at any time and interest is earned if a specific balance is maintained.	

12. Outline four benefits that accrue to a customer who uses automated teller machine (ATM) banking services.

Paper 2

1. Explain five functions of the central bank of Kenya.
2. Describe four measures that the government may put in place to reduce the amount of money in circulation.
3. Explain five services offered by commercial banks to their customers.
4. Explain five ways in which commercial banks facilitate payment on behalf of their customers.
5. Explain four services that the central bank of Kenya may offer as a banker to commercial banks.
6. Explain five in which banks contribute to the development of Kenya
7. Outline five reasons why banks currently account is popular with traders
8. Explain service offered to commercial banks by the central bank of Kenya
9. In what ways of the functions of commercial bank differ with those of non- bank Financial institutions
10. Explain five ways in which central bank of Kenya may control the supply of money in The country
11. Describe methods which may be used by commercial banks to advance money to customers.
12. A businessman wishes to obtain a loan from a commercial bank. Highlight the Conditions that he should satisfy before the bank can grant him the loan

13. Explain five services that the central bank of Kenya offers to commercial banks
14. Explain four disadvantages of using a bank overdraft as a source of finances
15. Describe four ways in which a non- bank financial institutions differ from the commercial banks
16. Discuss five reasons why business people prefer to operate bank current accounts
17. Outline the benefits that bank customer gets from operating a current account
18. Explain the 5 services offered by a commercial banks to their customers

- se in competitive advertising.