FINAL EXAMINATION

SCHOOL OF BIBLE AND THEOLOGY

BURUBURU CAMPUS

FIRST SEMESTER, 2025/2026 ACADEMIC YEAR

EXAMINATION FOR THE DEGREE OF BACHELOR OF ARTS IN BIBLICAL STUDIES

UCC 116: FINANCIAL LITERACY (FORM A)

STREAM: **TIME: 2 HOURS**

EXAMINATION SESSION: NOV/DEC **YEAR: 2025**

DAY [ ] **DATE: [ ]**

INSTRUCTIONS:

1. Attempt ALL the questions in **Section A**
2. Attempt any **Two** questions in **Section B**
3. The entire exam is worth forty (40) marks.
4. Write ONLY on the space provided on the answer sheet or as otherwise instructed.
5. Where necessary Show your working clearly.
6. Do NOT attempt to access any library, online (audio, video, digital or electronic) or paper-based (written), sources for your answers unless this is clearly advised in the Question.
7. The camera must be on throughout the exam period.

Question One (Compulsory) – 20 Marks

a) Define **financial literacy** and explain **three reasons** why it is important for individuals and communities.
b) Discuss **three key areas** covered under financial literacy education, giving a brief example for each.

SECTION B (20 MARKS) – CHOOSE TWO QUESTIONS

Question 2

a) Explain the **difference between a savings account and a current account**.
b) Identify and discuss **three factors to consider** when choosing a financial institution.

Question 3

a) Describe **three common types of credit** available to individuals.
b) Discuss **two advantages and two disadvantages** of using credit.

Question 4

a) Outline **four types of insurance** that individuals commonly purchase, and explain the purpose of each.
b) Explain the role of **insurance in financial planning**.

Question 5

a) Discuss **three ways individuals can build wealth through investing**.
b) Identify and explain **two common investment risks** and how they can be managed.

Marking Scheme

Question 1 (Compulsory)

a) Definition of financial literacy
Financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, saving, borrowing, and investing to make informed financial decisions.

b) Importance of financial literacy (Any 3 points)

1. **Improved financial decision-making** – Helps individuals plan, save, and invest wisely.
2. **Avoidance of debt traps** – Enables responsible borrowing and understanding of credit terms.
3. **Better financial security** – Promotes saving and investing for future needs and emergencies.
4. **Empowerment** – Builds confidence in managing personal and family finances.
5. **Economic development** – Financially literate citizens contribute to national economic growth.

(Any 3 well-explained points earn full marks.)

c) Key areas of financial literacy (Any 3 areas with examples)

1. **Budgeting and saving** – Creating a monthly budget to manage expenses and set aside money for emergencies.
2. **Credit and debt management** – Understanding loans, interest rates, and repayment obligations. Example: Knowing the total cost of a loan before borrowing.
3. **Investing and wealth building** – Learning about stocks, bonds, real estate, or retirement plans. Example: Investing in Treasury bonds for long-term returns.
4. **Banking and financial services** – Using bank accounts, mobile banking, and understanding charges.
5. **Insurance and risk management** – Using insurance to protect against financial losses.

Question 2

a) Difference between savings and current account

Savings Account	Current Account
Designed for individuals to save money and earn interest.	Designed for frequent transactions, mainly for businesses or professionals.
Limited withdrawals and transactions.	Unlimited transactions permitted.
Earns interest on the balance.	Usually no interest is earned.
Encourages saving habits.	Facilitates daily business operations.

b) Factors to consider when choosing a financial institution (Any 3)

1. **Accessibility and convenience** – Branch and ATM network, mobile banking services.
2. **Interest rates and charges** – On loans, savings, transaction fees, hidden costs.
3. **Reputation and stability** – Reliability, customer service, regulatory compliance.
4. **Range of services offered** – Loans, insurance, investment options.
5. **Security of deposits** – Whether the institution is regulated and insured.

Question 3

a) Common types of credit (Any 3)

1. **Personal loans** – Borrowed from banks for personal use, repayable in installments.
2. **Credit cards** – Allow users to borrow funds up to a limit for purchases.
3. **Overdrafts** – Short-term borrowing by withdrawing more than the account balance.
4. **Hire purchase / asset financing** – Buy goods or assets and pay in installments.
5. **Mortgages** – Long-term loans for purchasing property.

b) Advantages of using credit (Any 2)

1. **Access to funds for emergencies or opportunities** (e.g., medical bills, business capital).
2. **Convenience** – Enables purchases even without immediate cash.
3. **Helps build credit history** for future borrowing.

Disadvantages of using credit (Any 2)

1. **High interest costs** if not repaid on time.
2. **Risk of over-indebtedness** or default.
3. **Reduced future income** because repayments limit disposable income.

Question 4

a) Types of insurance (Any 4)

1. **Life insurance** – Provides financial support to dependents upon the policyholder's death.
2. **Health insurance** – Covers medical expenses in case of illness or injury.
3. **Motor/Vehicle insurance** – Covers damages or losses to vehicles.
4. **Property insurance** – Protects homes or businesses against fire, theft, or disasters.
5. **Travel insurance** – Covers risks associated with travel such as cancellations or medical emergencies.

b) Role of insurance in financial planning

- **Risk management** – Protects individuals from financial loss in emergencies.
- **Promotes savings and investment discipline** through regular premium payments.
- **Provides peace of mind**, allowing individuals to focus on other financial goals.

- **Stabilizes long-term financial plans** by covering unpredictable risks.

Question 5

a) Ways individuals can build wealth through investing (Any 3)

1. **Investing in financial instruments** – Stocks, bonds, mutual funds for returns and dividends.
2. **Real estate investment** – Buying property for rental income or capital appreciation.
3. **Entrepreneurship / starting a business** – Generates profits and long-term growth.
4. **Retirement plans and pension funds** – Ensures financial security after retirement.
5. **Education and skill development** – Increases earning potential over time.

b) Common investment risks and how to manage them (Any 2)

1. **Market risk** – Prices of investments fluctuate due to economic changes.
   - *Management:* Diversify investments, invest for the long term.
2. **Inflation risk** – Returns may not keep up with rising prices.
   - *Management:* Choose investments with returns above inflation (e.g., real estate, equities).
3. **Liquidity risk** – Difficulty converting investments into cash quickly.
   - *Management:* Maintain a balance between liquid and long-term assets.
4. **Credit risk** – Borrowers or companies may default.
   - *Management:* Research investments and diversify sources.