



**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2019/2020 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCF 311/BCF300**

**COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS**

**DATE: 3<sup>RD</sup> FEBRUARY, 2021      TIME: 8.00AM – 10.00AM**

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours



KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.



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Knowledge for Development

**SECTION A ( COMPULSORY)****QUESTION ONE**

- a) Differentiate between capital markets and money markets (4 marks)
- b) Explain financial repression as used in financial institutions and markets. (2 marks)
- c) Distinguish the difference between deficit and surplus units. (2 marks)
- d) Explain the yield to maturity as used in the bond market. (2 marks)
- e) Kenyas property market recently launched its first REIT in the Nairobi securities exchange. Explain what kind of financial product this is. (2 marks)
- f) What is the interbank market. (2marks)
- g) The Following the launch of the NEXT market, the NSE(Nairobi Securities Exchange) now offers Index Futures and Single Stock Futures on selected indices and stocks respectively. Explain the following terms  
  
Index futures(2 marks)  
  
Single stock futures(2 marks)
- h) Explain any four advantages of initial public offerings(4 marks)
- i) In Kenya who are the regulators of the banking industry? (1 mark)



- j) Explain any four characteristics of a well-functioning financial market.(4 marks)
- k) What are repurchase agreements and who uses them. (3 marks)

## SECTION B ANSWER ANY TWO QUESTIONS

### QUESTION TWO

- a) Explain any five objectives of the capital markets authority (10 marks)
- b) Explain the following theories of term structure of interest rates.
- Liquidity preference theory (3 marks)
- Market segmentation theory (3 marks)
- Pure expectations theory (4 marks)

### QUESTION THREE

- a) Explain any five types of bonds. ( 10 marks)
- b) As a capital market institution, the Nairobi Securities Exchange plays an important role in the process of economic development: explain any 5 such roles. (10 marks)

### QUESTION FOUR

- a) Explain any five types of derivative instruments as used in financial markets. (10 marks)
- a) Explain the efficient markets hypothesis and the three levels of informational efficiency in financial markets. (10 marks)



## QUESTION FIVE

- a) Explain any five reasons why financial institutions are important in a financial system. (10 marks)
- b) Name and explain any five global financial institutions.(10 marks)

