



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: 3RD FEBRUARY, 2021 TIME: 8.00AM – 10.00AM

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)

