



**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS  
2020/2021 ACADEMIC YEAR  
THIRD YEAR FIRST SEMESTER  
SPECIAL/SUPPLEMENTARY EXAMINATION  
FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCF 311/BBM300**

**COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS**

**DATE: 17<sup>TH</sup> FEBRUARY, 2021      TIME: 2.00PM – 4.00PM**

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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 3 Printed Pages. Please Turn Over.



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Knowledge for Development

## SECTION A (COMPULSORY)

### Question 1

- a) Name any two main functions of a financial system. (2 marks)
- b) Explain financial deepening as used in financial institutions and markets. (2 marks)
- c) What is the key function of financial intermediaries in the market.(2 marks)
- d) Explain any theories of term structure of interest rates. (4 marks)
- e) The NEXT market was recently launched at the Nairobi Securities exchange. Explain what kind of products are traded in this market.(3 marks)
- f) What is the role of money markets in the economy(2 marks)
- g) What is Underwriting as used in the securities market(2 marks)
- h) Explain any four disadvantages of initial public offerings(4 marks)
- i) Differentiate between investment banks and commercial banks (4 marks)
- j) Who are the regulators of the capital markets in Kenya? ( 1 mark)
- k) 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)

## SECTION B ANSWER ANY TWO QUESTIONS

### Question 2

- a) Explain any 5 qualities of a good financial market. (10 marks)
- b) Explain any 5 advantages of trading in the euro market.( 10 marks)

### Question 3

- a) Explain any 5 costs associated with floatation of new securities in the market. (5 marks)
- b) Explain any 5 roles of the Nairobi securities exchange(5 marks)
- c) In 2017, the Kenyan Treasury launched M-Akiba, a five-year infrastructure bond to help encourage savings. Explain any five other ways that investors use bonds. (10 marks)

### Question 4

- a) Explain any five applications of derivative instruments as used in financial markets. (10 marks)
- b) Explain any 5 market anomalies that are contrary to efficient markets.( 10 marks)

### Question 5

- a) Explain any five functions of the Central bank of Kenya. (10 marks)
- b) Explain any five reasons on the need for regulation in financial markets.(10 marks)

