

250



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

MAIN EXAMINATION (MAIN CAMPUS)

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 300

**COURSE TITLE: FINANCIAL MARKETS AND
INSTITUTIONS**

DATE: 15/01/2018

TIME: 9.00 AM - 11.00 A.M

INSTRUCTIONS TO CANDIDATES

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

TIME: 3 Hours

KIBUCO observes ZERO tolerance to examination  cheating

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

SECTION A (COMPULSORY)

QUESTION ONE

- a) A market as a set of arrangements that enables voluntary agreements to be reached among participants has several functions.
- i) Explain the term 'set of arrangements' as used in the above statement (3mks)
- ii) State and explain at least three functions performed by any market (9mks)
- b) State and explain two distinct roles played by current market price of an economy (4mks)
- c) Explain major characteristics of money market instruments (8mks)
- d) Give reasons why institutions like banks prefer to hold short-term rather than long-term bonds (6mks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

- a) The decision to issue equity against debt is based on several factors. State and explain those factors (10mks)
- b) A financial system is an interaction of governments firms and individuals in a business setting. Discuss (10mks)

QUESTION THREE

Financial institutions face information related cost. Explain these costs and possible solutions (20mks)

QUESTION FOUR

- a) Explain various ways through which banks are regulated (10mks)
- b) Sound financial markets reflect stability in economic system. Explain (10ks)

QUESTION FIVE

- a) State and explain factors affecting exchange rates in foreign exchange markets (10mks)
- b) The growth of derivatives market has been necessitated by the need for sophisticated risk management in the face of highly volatile exchange rates in the markets; State and explain the principle types of derivatives instruments (10mks)