



(Knowledge for Development)

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2017/2018 ACADEMIC YEAR**  
**THIRD YEAR FIRST SEMESTER**  
**SUPPLEMENTARY/ SPECIAL EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCF 300**

**COURSE TITLE: FINANCIAL MARKETS AND INSTITUTIONS**

**DATE:** <sup>A</sup> 1/10/18 **TIME:** 11:30 A.M

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**INSTRUCTIONS TO CANDIDATES**

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

TIME: 3 Hours

KIBU 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 atleast 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)