KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 305: FINANCIAL MARKETS AND INSTITUTIONS

DATE: Wednesday, 29th November 2017 **TIME**: 4.30 p.m. - 6.30 p.m.

INSTRUCTIONS:

Answer **ALL** questions

QUESTION ONE

(a) Describe the various categories of financial markets and briefly explain the role played by each of the markets. [12 Marks]

(b) One of the major indicators of stock market development is the increase in the varieties of products dealt with in the market such as derivatives. Explain why derivative trading is absent in developing markets such as the Nairobi Stock Exchange. [6 Marks]

[Total 18 Marks]

QUESTION TWO

(a) The financial sector in Kenya has recently witnessed tremendous growth and development. Outline the key factors that can be used to assess the financial sector performance in an economy. [8 Marks]

(b) Discuss the three theories of the term structure of interest rates. Include in your discussion outline the differences in the theories. [9 Marks]

[Total 17 Marks]

QUESTION THREE

(a) Explain the meaning of the following stock market terms:

(i) Bull and bear markets [2 Marks]

(ii) Bid-ask spread [2 Marks]

(iii) Short selling [2 Marks]

(iv) Market Makers [2 Marks]

(b) Explain the benefits of the Central Depository system (CDS) to the following stakeholders.

(i) Government; [3 Marks]

(ii) Capital Markets Authority and Nairobi Stock Exchange; [3 Marks]

(iii) Investors. [3 Marks]

[Total 17 Marks]

QUESTION FOUR

(a) Financial intermediaries essentially metamorphose the unacceptable claims on borrowers into acceptable claims on themselves. From this a number of benefits for the economy arise: In line with this statement outline the economic role of financial intermediaries.

[8 Marks]

(b) Since 1960s the Euro market has grown from negligible size to a very big size. Explain the factors to consider when choosing between euromarkets or domestic markets.

[10 Marks]

[Total 18 Marks]