KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2014/2015

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 305: FINANCIAL MARKETS AND INSTITUTIONS

DATE: TUESDAY 28TH APRIL 2015 **TIME: 11.00 A.M. – 1.00 P.M.**

INSTRUCTIONS: Answer ALL the questions.

Question one

(a) Changes in the financial regulatory framework has resulted in changes in the general regulatory architecture. As a result Kenya has decide to consolidate the regulatory authorities. Discuss the rationale for and against consolidation. (8 marks)

(b) Discuss the various classifications of financial markets. (12 marks)

Question two

Capital markets in Kenya have expanded over the last few years. This expansion is due to:

i) The initiatives of Capital Markets Authority

ii) The introduction of new financial instruments

iii) The appreciation of the role and functions of the capital markets by Kenyans.

Required

(a) What are the roles of Capital Markets Authority? (3 marks)

(b) Explain the meaning of the term "Financial Instrument". (2 marks)

(c) Describe the following investments which are available in the Kenyan Market today:

  i. Treasury Bill (2 marks)

  ii. Commercial paper (2 marks)

(d) Discuss any three theories that explain term structure of interest rate. (6 marks)

(e) Kethi Ndetei took a loan of KSh.2,000,000 for two years to be repaid in monthly installments. The total finance charges including interest add up to Ksh.116,000. Using the following methods, determine interest rates

(i) N-method (2 marks)

(ii) Constant rate method (2 marks)

(iii) Direct-ratio method (2 marks)

Question Three

Bancassurance model is one of the financial innovations adopted by financial institutions in Kenya.

Required:

(a) Provide the advantage of the bancassurance model to commercial banks and insurance companies. (6 marks)

(b) Indicate the six different forms of Bancassurance that can be adopted by commercial banks and insurance companies. (6 marks)

Question Four

(a) Briefly explain the term REPO and REVERSE REPO (2 marks)

(b) Bank X wants to raise funds from Bank Y for fifteen days at a repo rate of 9.00% p.a. The securities for this transaction is an 8% semi-annual coupon (Coupon date 25th April and 25th October) of face value KSh500 million which is presently trading at 98.2 for 100 face value. Hence the amount that Bank x will borrow from Bank Y = Ex-interest price of the security + accrued interest based on 30/360 day count convention.

Required:

Determine the repurchase price of the REPO transaction. (5 marks)

c) The following information is reported in a daily newspaper with respect to shares traded on the Nairobi Securities Exchange:

	Last 12 months H Shs.	L Shs.	Security	Yesterday Shs.	Previous Deal Shs.	Shares traded
1	200.00	75.00	Kakuzi Limited Ord. Sh.5	120.00	130.00CD	10,000
2	90.50	43.50	Express Kenya Ltd. Ord. Sh.5		43.50	
3	40.00	4.00	ATH Ltd. Ord. Sh.10	Suspended		
4	362.00	102.00	Unga Ltd. Ord. Sh.5	317.00CB	318.00	
5	14.00	90.00	Barclays Bank Ltd. Ord.Sh.10	90.00	90.00	

Required

(i) Why does the price of a share change? (3 marks)

(ii) What does the CD against Kakuzi's share price mean? (1 mark

(iii) Under the yesterday's column for Express Kenya Ltd., there is a dash (-). Explain. (1 mark)

(iv) ATH is indicated as suspend. Explain why a company may be suspended from the stock exchange. (3 marks)

(v) Explain the CB against the Unga share price. (1 mark)

(vi) What is the meaning of the Ord. Sh.10 indicated against the Barclays Bank? (1 mark)

(Total: 10 marks)

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