



10/1/13

# UNIVERSITY OF NAIROBI

MODULE II DEGREE PROGRAMME - 2012/2013

(NAIROBI - DAY)

## THIRD YEAR EXAMINATIONS FOR THE DEGREE OF BACHELOR OF COMMERCE

### DFI 303: FINANCIAL INSTITUTIONS AND MARKETS

DATE: MAY 8, 2013

TIME: 9.00 A.M. - 11.00 A.M.

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#### INSTRUCTIONS:

1. Answer ALL Questions.
  2. Questions carry EQUAL marks.
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#### Question One

- (a) What is a foreign exchange market and why do investors invest in foreign markets. [10 marks]
- (b) "The Kenyan currency has been unstable for the last few years". Discuss the exchange rate determinants. [10 marks]
- (c) Write short notes on the following:
  - (i) Pegged exchange rate system. [3 marks]
  - (ii) Managed float exchange system [2 marks]

#### Question Two

- (a) Describe the role of a financial system with specific reference to the Kenyan financial market. [9 marks]
- (b) Describe the unbiased expectation, theory, liquidity preference theory and the segmented markets theory. [12 marks]
- (c) What are the assumptions of the unbiased expectations theory? [4 marks]

#### Question Three

- (a) What is mortgage refinancing and mortgage amortization? [9 marks]

- (b) Calculate the yield to maturity on the following bonds:
- (i) A 9 percent coupon (paid semi-annually) bond, with a Kshs.1,000 face value and 15 years remaining to maturity. The bond is selling at Kshs.985. [5 marks]
  - (ii) An 8 percent coupon (paid quarterly) bond, with a Kshs.1,000 face value and 10 years remaining to maturity. The bond is selling at Kshs.915. [5 marks]
- (c) Describe which situation a bond is considered a premium bond, a discount bond and a par bond. [6 marks]

**Question Four**

- (a) What are the functions of commercial banks in Kenya? [12 marks]
- (b) What is Investment banking and how is it different from commercial banking? [13 marks]