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**University Examinations 2015/2016**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3328: FINANCIAL INSTITUTIONS AND MARKETS**

 **DATE: AUGUST 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. The East Africa Securities Exchange Association (EASE) has crafted a proportion that will see creation of the regional commission platform to ensure efficient delivery and settlement of securities across regional markets. Describe the current achievements and progress going on to achieve these purposes. (7 Marks)
2. (i) Discuss the determinants of rate of interest prevailing in an economy. (4 Marks)

(ii) Explain why the nominal interest rates rises or falls point-for-point with changes in the expected inflation rate. (4 Marks)

1. (i) Explain the distinction between primary markets versus secondary markets. (4 Marks)

(ii) Distinguish between money markets and capital markets. (4 Marks)

1. Explain how the financial system allocates capital resources in the economy. (7 Marks)

**QUESTION TWO (20 MARKS)**

1. Explain how the following institutions play the role of financial institutions:
2. Nairobi Securities Exchange (5 Marks)
3. Mutual Funds (5 Marks)
4. Explain the objectives of the following institutions:
5. International Monetary Fund (IMF) (5 Marks)
6. International Bank for Reconstruction and Development. (5 Marks)

**QUESTION THREE (20 MARKS)**

1. Financial intermediaries performs critical functions in financial market operations, thus they cannot be avoided.
2. Explain what are financial intermediaries. (2 Marks)
3. Describe the functions performed by financial intermediaries in the investment activities. (10 Marks)
4. Describe the major acts set up by the government of Kenya in regulating the financial system. (8 Marks)

**QUESTION FOUR (20 MARKS)**

1. Describe various risks that financial institutions face in day-to-day operations in the financial markets. (10 Marks)
2. Discuss the role of Central Bank of Kenya in controlling financial market operations in Kenya. (10 Marks)

**QUESTION FIVE (20 MARKS)**

1. Explain the following terms:
2. Adverse selection (5 Marks)
3. Moral hazards (5 Marks)
4. Describe the basic role of savings and credit co-operative societies in Kenya. (10 Marks)