

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** [**info@must.ac.ke**](mailto:info@must.ac.ke)

**University Examinations 2016/2017**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR

OF COMMERCE AND BUSINESS ADMINISTRATION

**BFC3328: FINANCIAL INSTITUTIONS & MARKETS**

**DATE: DECEMBER 2016 TIME: 2HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Distinguish between the following
2. Money market versus capital market (4 marks)
3. Primary market versus secondary market (4 marks)
4. Explain how the financial system allocates capital resources in the economy

(6 marks)

1. Discuss the reasons that have led to the faster growth of SACCOS in Kenya (10 marks)
2. Highlight the secondary functions of money (6 marks)

**QUESTION TWO (20 MARKS)**

1. The cost of borrowing money for a period of time (its time value) is measured by the interest rate for the period. Interest rates and bond yields are usually quoted on a nominal basis
2. Highlight the two components of nominal rate, clearly showing how they are related (5 marks)
3. If the nominal interest rate for one-year money is 10% p.a with annual compounding and the assumed rate of inflation over the period is 5% p.a . calculate the real interest rate (5 marks)
4. Why are exchange rates important (4 marks)
5. At the beginning of year 2009 the euro was valued at 1.18 shillings and as indicated in the “Forex report” on NTV on February 5,2010, it was valued at 1.08 shillings.

Determine the depreciation rate (3 marks)

1. The US dollar, which went from a value of 0.85 Euros per dollar at the beginning of March 2010 to a value of 0.93 Euros per dollar on October 25

Determine the appreciation rate (3 marks)

**QUESTION THREE (20 MARKS)**

Automation of securities exchange is done through

1. Automated trading system(ATS)
2. Central depository system (CDS)

**Required:**

1. Highlight the benefits of electronic settlement through CDS (9 marks)
2. What are the benefits of CDS to
3. Government (3 marks)
4. Capital market authority and NSE (4 marks)
5. Investors (4 marks)

**QUESTION FOUR (20 MARKS)**

1. Explain the role of the financial system with specific reference to Kenya (10 marks)
2. Discuss the forms of regulations in Kenya’s financial market (10 marks)

**QUESTION FIVE (20 MARKS)**

1. What are the negative aspects of small financial systems in Africa (10 marks)
2. Evaluate the benefits of securitization (10 marks)