



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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University Examinations 2011/2012

THIRD YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE

HBC 2205: FINANCIAL INSTITUTION AND MARKET

DATE: APRIL 2012

TIME: 2 HOURS

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

QUESTION ONE (30 MARKS)

- a. Discuss the importance of financial market to the economy (6 Marks)
- b. Explain the differences between the following:
 - i. Primary market and secondary market (3 Marks)
 - ii. Limit order and market order (3 Marks)
 - iii. Securities firms and investment banks (4 Marks)
 - iv. Discuss various theories of interest rates (10 Marks)
 - v. Describe the cheque truncation system (4 Marks)

QUESTION TWO (20 MARKS)

- a. Explain the meaning of the following concepts as applied in financial markets (8 Marks)
- b. Write short notes on the following:
 - i. Defined contribution pension fund (3 Marks)
 - ii. Market making (3 Marks)
 - iii. Net asset value (3 Marks)
 - iv. Underwriting (3 Marks)

QUESTION THREE (20 MARKS)

- a. Explain the role of money market in the financial systems (6 Marks)
- b. The government of Kenya recently sold to you a 812 day T-bill for sh. 8500. The T-bill has a face value of ksh.10, 000.

Calculate:

- i. The discount yield (2 Marks)
- ii. The bond equivalent yield (2 Marks)
- c. Last year, you purchased a stock of a A company at a price of ksh.62. You sold the stock this year for ksh.75. The stock also paid ksh. 5.60 as annual dividend. What would be return on your investment (2 Marks)
- d. Compare loanable interest theory with classical theory (2 Marks)

QUESTION FOUR (20 MARKS)

- a. Explain the characteristics of futures that makes it different from forward (4 Marks)
- b. Discuss various ways in which firm hedge against risk (6 Marks)
- c. Argue the case for and against regulation of financial system (10 Marks)