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**University Examinations 2015/2016**

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

**BFC3328: FINANCIAL INSTITUTIONS AND MARKETS**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Financial institutions in Kenya have experienced tremendous growth in the recent past, discuss the factors that accounted for this growth (10 Marks)
2. By use of relevant examples, explain the differences between the following terms:
3. Adverse selection and Moral hazard (4 Marks)
4. Derivative and forex market (4 Marks)
5. Defined contribution plan and Defined benefit plan (4 Marks)
6. Briefly explain the role of informal financial institutions to the economy (4 Marks)
7. Describe how the existence of deficit income units and surplus income units created the concept of financial system (4 Marks)

**QUESTION TWO (20 MARKS)**

1. Explain the rationale of regulating our financial system (8 Marks)
2. Discuss the role of the following regulatory bodies:
3. Retirement benefit authority (6 Marks)
4. Insurance regulatory authority (6 Marks)

**QUESTION THREE (20 MARKS)**

1. By use of examples, briefly describe the role of the following depository financial institutions:
2. Investment banks (5 Marks)
3. Mutual funds (5 Marks)
4. Pension funds (5 Marks)

**QUESTION FOUR (20 MARMS)**

1. The government of Kenya has recently embarked on developing derivate markets. Discuss the challenges they are likely to face in realizing their objectives (10 Marks)
2. Briefly explain the role of the following international financial institutions:
3. World bank (5 Marks)
4. IMF (5 Marks)

**QUESTION FIVE (20 MARKS)**

1. Currently the cost of living is high in Kenya due to increased interest rates and inflation. Discuss the tools the government may use to contain situation (10 Marks)
2. Briefly explain the term structure theories of interest rates (10 Marks)