



## **MASENO UNIVERSITY**

### **UNIVERSITY EXAMINATIONS 2016/2017**

**THIRD YEAR SECOND SEMESTER EXAMINATIONS FOR THE  
DEGREE OF BACHELOR OF ARTS IN ECONOMICS WITH  
INFORMATION TECHNOLOGY**

### **MAIN CAMPUS**

### **AEC 308: FINANCIAL ECONOMICS**

Date: 15<sup>th</sup> June, 2017

Time: 12.00 - 3.00 pm

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#### **INSTRUCTIONS:**

- Answer question ONE and any other THREE questions.

### QUESTION ONE

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- a) ~~Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees, and market forces determining the prices of securities that trade.~~ What are the roles of financial markets in the Kenyan context? (10 marks)
- b) Give reasons why the financial sector should be subjected to strict and stringent regulation. (5 marks)
- c) Interest rate is the price paid for the use of credit or money. Explain the different types of interest rates available in Kenya. (10 marks)

### QUESTION TWO

Explain the dynamics that exist on the interaction between IS- LM curve as a result of changes in the money supply. Use appropriate diagram. (15 marks)

### QUESTION THREE

Discuss the meaning of Stock Exchange and provide its importance. (15 marks)

### QUESTION FOUR

By giving its assumptions, discuss the Portfolio Theory as enshrined by Fischer Black and Myron Scholes in 1973. (15 marks)

### QUESTION FIVE

- a) Define the term "Structure of interest rate". (2 marks)
- b) Using relevant yield diagrams, discuss how interest rates differ with the maturity dates. (13 marks)

### QUESTION SIX

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The Industrial & Commercial Development Corporation (ICDC) was established in 1954 under its own Act of Parliament Cap 445 of the Laws of Kenya.

- a) What are the functions of ICDC? (7 marks)
- b) What are some of the challenges faced by ICDC? (8 marks)