



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2019/2020 ACADEMIC YEAR
THIRD YEAR FIRST SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 300/BBM300

COURSE TITLE: FINANCIAL MARKETS AND INSTITUTIONS

DATE: 13/12/2019 **TIME:** 3:00 P.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

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This paper consists of 30 pages. Please turn over.

SECTION A

Question one

- a) Distinguish between debt and equity securities (4mks)
- b) Explain the importance of a well-functioning financial system to a developing economy (10mks)
- c) Identify at least three types of risks incurred by financial institutions and using illustrations, explain the extent to which the risks affect the operations of financial institutions in Kenya. (6 marks)
- d) Suppose a bank enters into a reverse repurchase agreement in which it agrees to buy treasury bills from another bank at a price of \$10,000,000 with a promise to sell the securities back at \$10,002,986 after five days. Determine the yield on repos (4mks)
- e) Financial markets can be classified in terms of the extent of financial intermediation involved in the sale of financial instruments. State and explain types of markets under this classifications (6mks)

SECTION B

QUESTION TWO

- a) In the recent past, Kenya has witnessed growth in both the number and the scope of financial institutions. State and explain the causes of this trend. (10 marks)
- b) Money markets have expanded internationally and have grown in size and importance. state and explain reasons for the expansion (10mks)

QUESTION THREE

- a) 'Financial markets are the most regulated markets in modern economy'. Justify this statement by explaining the objectives of regulation (8mks)
- b) Examine challenges and policy direction for central bank concerning commercial banks in Kenya (12mks)

QUESTION FOUR

- a) Evaluate the role of capital markets in relation to economic development of a country (15mks)
- b) Suppose you have the opportunity to buy Kshs. 1000 coupon bond with maturity 30 years and interest rate of 6%. What is the present value of the bond? Is it worth holding it? (5mks)

$$r = 6\% \quad A = 1000$$
$$n = 30 \text{ yr}$$

QUESTION FIVE

- a) Discuss two key performance evaluation techniques used by regulators as early warning system on commercial banks (15mks)
- b) State and explain types of covenants that might be attached to a bond (5mks)