



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

TOWN LEARNING CENTRE

SPECIAL / SUPPLEMENTARY EXAMINATIONS

2015/2016 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: HBF 2301

COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS

DATE: ----- February, 2016

TIME:

INSTRUCTIONS TO CANDIDATES

- Question ONE (1) is compulsory
- Answer ANY OTHER TWO questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 2 Printed Pages. Please Turn Over.



QUESTION ONE (COMPULSORY)

- a. Explain the mandate of the Capital Markets Authority in the financial system as laid out in the CMA Act (CAP 485A – Laws of Kenya) (14 marks)
- b. The benefit of a developed financial market can be derailed by lack of efficiency in the market.
 - i. Explain the various reasons why financial markets should be efficient (7 marks)
 - ii. Identify and explain the various types of market efficiencies necessary in a financial market (9 marks)

QUESTION TWO

- a. Highlight the characteristics that distinguish money market securities from other financial market securities (3 marks)
- b. Explain the operation of the following financial market securities and institutions
 - i. Call options (3 marks)
 - ii. Negotiable certificates of deposit (3 marks)
 - iii. Mutual funds (3 marks)
- c. Differentiate between money markets and capital markets (8 marks)

QUESTION THREE

- a. Expectations about future short term rates of interest can be used to explain the variations in interest rates across different maturities. Explain (8 marks)
- b. The future expected short term one year rates are 10%, 12% and 8% for the next three years. An investor in this market demands a liquidity premium of 2% for every year beyond the current investment period to take up long term investments. If the current one year rate today is 14%, what is the long term rate on a 4 year debt security? (6 marks)
- c. Highlighting the different types, what are stock exchanges (6 marks)

QUESTION FOUR

- a. Differentiate between initial public offering (IPO) and secondary stock offering (6 marks)
- b. What functions do organized stock exchanges play in the financial system (14 marks)