



## MURANG'A UNIVERSITY COLLEGE

(A Constituent College of Jomo Kenyatta University of Agriculture and Technology)

### HBF 2301: FINANCIAL INSTITUTIONS AND MARKETS

#### BACHELOR OF COMMERCE

2014/2015 Academic year

Semester I

DATE: 3<sup>RD</sup> AUGUST 2015

TIME: 9.00AM-11.00AM

#### SUPPLEMENTARY EXAMINATION

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#### Instructions to Candidates

- i. Attempt **ALL** Questions
  - ii. Time allowed: 2 hours
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#### Question One

- a. Read the following hypothetical article and answer the questions that follow

The failure of the CMA: “The capital markets authority has failed in its most basic function of maintaining an efficient financial market. The collapse of Discount securities when it had just been active in the market and the trading of Uchumi Supermarket shares days before its closure in 2005 just points to this bare reality. Further I’m not convinced that CMA has any other function to perform apart from that of maintaining an efficient market.....” anonymous author

- i. Do you agree with the author that CMA has just this one function? Discuss (15 marks)
  - ii. Explain to the author the various types of efficiencies he should look out for before he can conclude that a financial market is not efficient (15 marks)
  - iii. Why should the financial markets be efficient (15 marks)
- b. Highlight the role of derivative securities markets in the financial system (7 marks)
- c. What characteristics differentiate money market securities from other securities (3 marks)

### **Question Two**

The last ten years has seen a tremendous expansion in depository financial institutions. Explain the role that these institutions perform in the financial markets. (15 marks)

### **Question Three**

- a. Distinguish between primary and secondary financial markets (9 marks)
- b. Why should financial markets be regulated? (6 marks)

### **Question Four**

- a. Explain the operation of the following money market securities
  - i. Repurchase agreement
  - ii. Negotiable Certificates of Deposit (NCDs) (10 marks)
- b. Highlighting the different types, define stock exchanges (5 marks)