



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

ORDINARY UNIVERSITY 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: 14th December, 2015

TIME: 2

INSTRUCTIONS TO CANDIDATES

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

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 3 Printed Pages. Please Turn Over.



QUESTION ONE (COMPULSORY)

- a. What role do investment banks perform in the financial markets (6 marks)
- b. With reference to segmented markets hypothesis, discuss why different maturity securities would have different interest rates when all other investment characteristics are similar (9 marks)
- c. Name any five regulators in the Kenyan financial system indicating the segment of the financial segment that each regulates (5 marks)
- d. Why should financial markets be regulated (3 marks)
- e. Identify the various participants in the foreign exchange markets (4 marks)
- f. What characteristics of money market securities differentiate them from other financial market securities (3 marks)

QUESTION TWO

- a. An investor in a financial market requires a liquidity premium of 2.5 percent for every holding period beyond the current investment period in order to take up long term investments. The current short term rate in market is 8% and the market expects future short term rates of 10%, 11%, 9% and 7% in the next four years. What would be the rate on a long term security if the investor was to take up a 4 year security (6 marks)
- b. Discuss the importance of organized stock exchanges in the financial system (14 marks)

QUESTION THREE

The benefit of a developed financial market can be derailed by lack of efficiency in the market.

- a. Explain the various reasons why financial markets should be efficient (12 marks)
- b. Identify and explain the various types of market efficiencies necessary in a financial market (8 marks)

QUESTION FOUR

- a. The last one decade has seen a tremendous expansion in depository financial institutions. Explain the role that these institutions perform in the financial markets. (12 marks)
- b. Distinguish between primary and secondary financial markets (8 marks)