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JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

**UNIVERSITY EXAMINATION 2017/2018**

**SECOND YEAR FIRST /SECOND SEMESTER EXAMINATION FOR THE DIPLOMA IN ACCOUNTING AND FINANCE**

**DAF 0208: FINANCIAL MARKETS AND INSTITUTIONS**

**DATE: AUGUST 2018 TIME: 1 ½ HOURS**

INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER

TWO QUESTIONS

**QUESTION ONE: 20 MARKS**

a. JJ plc issued 1 for 4 rights shares of $1. Market 2017 at an exercise price of $1. Market value of its shares immediately prior to the right issue was $1.5 per share. JJ plc had 2 million shares before the issuance of right shares. All rights were exercised by share holders on 31st March 2018.

Required:-

1. Ex-right price. (8 marks)

2. The value of right. (2 marks)

b. Assume Mr. James own 2,000 shares in the company above, show Mr. James position if:-

1. Take up his rights. (4 marks)

2. Sell his rights. (3 marks)

3. Does nothing. (3 marks)

**QUESTION TWO: 20 MARKS**

Discuss six basic functions of financial markets.

**QUESTION THREE: 20 MARKS**

Discuss three forms of market informational efficiency.

**QUESTION FOUR: 20 MARKS**

Discuss benefits, risks and controls of repurchase agreements.

**QUESTION FIVE: 20 MARKS**

Discuss factors supporting growth of financial markets in Africa.