MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR …………. SEMESTER EXAMINATION FOR BACHELOR OF COMMERCE

BAC 305: FINANCIAL MARKETS AND INSTITUTIONS

DATE: **TIME:**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

1. (a) Capital markets authority [CMA] is a regulatory body launched in 1989 to assist in creatinga conducive environment for the growth and development of the country,s capital markets.Discuss the contribution of CMA in development of capital markets in Kenya (10 marks)

(b) Critique the theories of interest rates (6 marks)

(c) Explain the following economic functions of commercial banks[6 marks]

i) Credit quality improvement.
ii) Maturity transformation.
iii) Credit creation.
iv) Credit intermediation.

(d) Explain the following types of bond markets (6 marks)

i) Mortgage Backed securities.
ii) Treasury bonds.
iii) Corporate bond.
iv) Collaterized debt obligations.

(e) Distinguish between investment trusts and unit trusts (2 marks)

2. (a) Discuss the incentives that the government has given to companies to induce them go public. (10 marks)

(b) Discuss the procedure to be followed when an investor wants to invest in a certain company shares. (10 marks)

3. (a) One of the factors that has led to the need for corporate governance in financial markets are insider dealings. what are insider dealings. (3 marks)

(b) There is therefore the need to curb the above unethical practice which distorts the normal operations of the market mechanism. With specific examples, demonstrate evidence of regulatory attempt to curb insider dealings. (10 marks)

(c) Discuss the three forms of market efficiencies in efficient market hypothesis. (7 marks)

4. (a) Explain the following economic functions of financial intermediaries. (8 marks)

i) Facilitation of flow of funds.
ii) Efficient allocation of funds.
iii) Enhanced liquidity for for the lender.
iv) Money creation.

(b) State four disadvantages to a company that has issued fixed income securities. (4 marks)

(c) In your view, what leads to inefficient financial markets. (8 marks)

5. (a) Explain the three forms of financial crisis in the failure of financial markets. (6 marks)

(b) Explain the meaning of the following stock exchange terminologies. (6 marks)

i) Blue chips.
ii) Stags.
iii) Bonus shares.
iv) Going short or going long.

(c) Show the distinguishing characteristics between money markets and capital markets. (12 marks)