MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 305: FINANCIAL INSTITUTIONS AND MARKETS

DATE: **TIME:**

INSTRUCTIONS: Attempt Question One and any other Two Questions

I. a) One of the major indicators of stock market development is the increase in the varieties of products dealt with in the market such as derivatives. Explain why derivatives trading absent in many developing markets. (12 marks)

b) Explain the following functions of financial intermediaries (6 marks)

i) Economies of scale
ii) Payments system
iii) Monetary policy function

c) State five features of fixed income securities (4 marks)

d) Distinguish between organized exchange and over the counter markets(4 marks)

e) State four roles played by interest rates in the economy. (4 marks)

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

b) State five factors contributing to the slow growth of capital markets in emerging markets. (5 marks)

c) Analyze the factors that might lead to the existence of the global debt problem (5 marks)

3. a) Capital markets are not necessary efficient.this therefore gives rise to information asymmetry which refers to unreliable effects in the operations of the markets.information asymmetry interferes interferes with the operations of the markets and achievements of its role of financial mobilization and intermediation in the various sectors of the economy.requred.Explain the term adverse selection and moral hazards in relation to information asymmetry (6 marks)

b) Explain the following functions of the financial system (6 marks)

i) risk function
ii) savings function
iii) Payments function

c) Distinguish between investment trust and unit trusts (4 marks)

d) State four roles of secondary markets (4 marks)

4. a) Explain the following terms and give examples in each case (8 marks)

i) Watered capital
ii) Margin of purchase
iii) Aggressive shares
iv) Going short and going long.

b) Explain the three measurements of interest rates (6 marks)

c) Who is a bull in stock exchange market (2 marks)

d) Explain the market segmentation theory as a term structure theory of interest rates. (4 marks)

5. a) Distinguish financial engineering and financial innovation. (4 marks)

b) Capital markets authority is a regulatory body developed and launched in 1989 to assist in creating conducive environment for the growth and development of the countries capital markets. Discuss the contribution of CMA in development of capital markets in kenya (10 marks)

c) Differentiate the following types of financial markets (6 marks)

i) Open vs negotiated markets
ii) Spot vs futures and forward markets
iii) Primary vs secondary markets

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BACHELOR OF COMMERCE

BAC 310: MANAGEMENT OF FINANCIAL INSTITUTIONS

DATE: **TIME:**

INSTRUCTIONS: Attempt Question One and any other Two Questions

1. a) Distinguish between traditional and intermediate financial intermediation (3 marks)

   b) State and explain the functions of any two types of investment advisory companies (4 marks)

   c) Explain the following types of financial risks (3 marks)

   i) Liquidity risk
   ii) Interest rate risk
   iii) Credit risk

   d) Financial institutions perform the essential function of channeling funds from those with surplus funds to those with shortage of funds.In the context of the above statement ,identify and categorize the different types of financial imstitutions operating in our systems (10 marks)

   e) Explain the different types of provident fund benefits (10 marks)

2. a) Explain the following general areas of financial institution specialness(6 marks)

   i) Liquidity and price risk
   ii) Transmission of monetary policy
   iii) Maturity intermediation

   b) Discuss the major objectives of bank regulation (10 marks)

c) Explain the following types of deposits (4 marks)

I. Cash certificates
II. Recurring deposits

3. a) Characterize the risk exposures of the following financial institution Transactions (5 marks)

i) A bank finances a kshs20 m six year fixes rate commercial loan by selling one year certificate of deposit
ii) An insurance company invests its policy premiums in a long term municipal bond portfolio
iii) A Japanese bank acquires a Kenyan bank to facilitate cheering operations
iv) A bond dealer uses his own equity to buy a Kenyan debt 0n the less developed countries market
v) A Ugandan bank sells two year fixed notes to finance a two year fixed rate loan to Ugandan entrepreneur

b) Explain the three important parties involved in a securitization transaction (6 marks)

c) Highlight ten factors to consider when assessing banks earnings (5 marks)

d) Explain the following utility functions of commercial banks (4 marks)

i) Issuing letters of credit
ii) Issuing travelers cheques

4. a) The CAMELS rating system is a supervisory rating system originally developed in the us to classify banks overall condition. This is done through the assessment of the components of the banks overall condition.in the context of the above discuss the overall composite ratings (16 marks)

b) How do financial institutions help individual savers diversify their portfolio risk? Which type of financial institution is best able to achieve this goal (4 marks)

5. a) Explain the three monetary policy regulatory tool used by the central bank in regulating the value ,supply and cost of money in the economy (6 marks)

b) State and explain any five risks faced by insurance companies (10 marks)

c) What is the difference between loans sold with recourse and without recourse from the perspective of both sellers and buyers (4 marks)