MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 305: FINANCIAL INSTITUTIONS AND MARKETS

Date: 8/12/2015 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS

Answer Question One and Any Other Two Questions

1. (a) One of the major indicators of stock markets development is the increase in the varieties of products dealt with in the market such as derivatives. Explain why derivate trading is absent in developing market such as the Nairobi securities exchange. (10 marks)

(b) State three disadvantages of cross-border listing. (3 marks)

(c) Briefly explain the loanable funds theory or interest rates. (5 marks)

(d) As noted the financial intermediaries essentially metamorphose the unacceptable claims on borrowers into acceptable claims on themselves . In relation to this statement, discus the fact that financial intermediaries lead to improved diversification for the lender. (4 marks)

(e) Distinguish between investment trust and unit trust. (4 marks)

(f) Highlight four responsibilities of financial innovations. (4 marks)

2 (a) Distinguish between financial engineering and financial innovation. (5 marks)

(b) Explain the three types of financial crisis. (6 marks)

(c) Explain why the central bank is considered critical in every functioning economy

(9 marks)

3. (a) Explain the main challenges experienced by the central bank in its Implementation on monetary policies. (8 marks)

(b) Discus six challenges facing Micro financial institution in the developing world (12 marks)

4. (a) Financial institutions provide financial services for its client .Discuss the various form of risks that financial institutions are exposed to. (14 marks)

(b) Discuss the role played by Kenyan government in supporting micro financial institutions in Kenya. (6 marks)

5 (a) A mutual fund is an investment vehicle that is made up of a pool of funds collected by many investors for the purpose of investing in securities such as stocks, bonds, money market instruments. Discuss the advantages of ma mutual fund. (10 marks)

(b) List and explain five factors to consider when buying shares of a company.

(10 marks)