MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 305 FINANCIAL MARKETS AND INSTITUTIONS

DATE: 23/7/2019 **TIME: 8.30-10.30 AM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (30 MARKS)

a) Financial Markets experience problems of information asymmetry.

  i. Explain the main causes of information asymmetry in Kenya financial Markets. (6 marks)

  ii. Explain the role of asymmetric information in adverse selection in the Kenyan Financial Market. (6 marks)

b) Financial innovations is the unanticipated improvements in the array of financial products and instruments that are stimulated by unexpected tax or regulatory impulses. With relevant examples, explain two types of financial innovations. (8 marks)

c) Listing involves making the company to go public. When a company goes public, it is able to issue shares to the public through the stock exchange. Identify and explain five advantages of being listed on a stock exchange. (5 marks)

d) The global financial system fulfills its various roles mainly through markets where financial claims and financial services are traded. These markets may be viewed as channels through which moves a vast flow of loanable funds that is continually being drawn upon by the demanders of funds and continually being replenished by the suppliers of funds. Name and explain the types of financial Market. (5 marks)

QUESTION TWO (20 MARKS)

a) Explain why it is necessary to incorporate the needs of Micro-finance institutions when formulating policies of financial markets. (10 marks)

b) A client walks to a Micro Finance institutions and laments, 'These Micro-finance institutions are saturated with problems. Their hands are tied with so many ropes in the process of providing micro-finance services'. Identify and explain the main constraints that MFIs might experience when providing their services. (10 marks)

QUESTION THREE (20 MARKS)

a) Financial intermediaries evolved over many years to perform the financial-related functions desired by the four sectors of the economy: household, corporate, government and foreign sectors. Explain five economic functions of financial intermediaries. (10 marks)

b) The central bank is an organ of the government that is responsible for the supply of money and regulation of money in circulation within an economy. Identify and explain five functions of a central Bank. (10 marks)

QUESTION FOUR (20 MARKS)

a) Identify and explain the factors contributing to slow growth of capital markets in many emerging markets such as Kenyan markets and suggest ways which can mitigate their effects. (12 marks)

b) With examples from Kenya, explain the policies implemented by the Central Bank of Kenya. (8 marks)

QUESTION FIVE (20 MARKS)

a) Financial crises is a reality in both developed and developing financial markets. Using examples as appropriate, explain how government through the regulatory agencies and policy makers can minimize the negative effects of financial markets. (10 marks)

b) Explain the main derivative instruments that trade in financial markets clearly identifying those that trade in the Kenya financial market. (10 marks)