



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION)

BACHELOR OF ECONOMICS AND FINANCE

BAC 305: FINANCIAL MARKETS AND INSTITUTIONS

DATE: 12/8/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS) (COMPULSORY)

The CDS is a computerized ledger system that enables the transfer of the securities without the need for the physical movement of the securities.

- a) Explain four functions of the CDS (2 marks)
- b) Identify and explain three advantages of the CDS (3 marks)

The Securities Exchange is a market where the shares of companies are traded. The shares traded in the market are freely transferable.

- c) Explain five functions of a national Securities Exchange in a country like Kenya i.e NSE (5 marks)
- d) Distinguish between money and capital markets clearly indicating the type of securities traded in each market. (4 marks)
- e) What are structural adjustment programmes[SAPS] (3 marks)
- f) Although structural adjustment programmes (SAPS) differ from one country to another, there are some features that may be the same in all. Explain five features of SAPS (5 marks)

- g) Miller, Silber and Van Horne characterize and describe financial innovations as unanticipated improvements in the array of financial products and instruments that are stimulated by unexpected tax or regulatory impulses.

Financial innovations hence refer to the improvements of financial products that are stimulated by unexpected impulses:

Identify and clearly explain any Four factors that are responsible for financial Innovations. (8 marks)

QUESTION TWO (20 MARKS)

- a) Discuss why capital markets in Kenya are more developed than money markets (5 marks)
- b) 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. (8 marks)
- c) Explain why it is necessary to incorporate the needs of Micro-finance institutions when formulating policies of financial markets. (7 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 four economic functions of financial intermediaries. (4 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 the functions of a central Bank. (8 marks)
- c) The main types of financial innovations include Institutional innovations, Process innovations and Product innovations. Process Innovations include the introduction of new business processes leading to increased efficiency and market expansion. Explain clearly how the following types of process innovations operate:
- i. Electronic Banking (4 marks)
 - ii. Real Time Gross Settlement (RTGS) (4 marks)

QUESTION FOUR (20 MARKS)

- a) What are the economic functions of capital markets (5 marks)
- b) The main securities in the market include shares, debt and derivatives. Highlight five characteristics of Ordinary shares (5 marks)
- c) The stockholders of a company that issues common stock enjoys some benefits. Identify and explain five of such benefits. (5 marks)
- d) Distinguish between the following terms:
 - i. Bulls and Bears (1 mark)
 - ii. Investment Trusts and Unit Trusts (1 mark)
 - iii. Mutual Funds and Pension Funds (1 mark)
- e) What do you understand by the term “**Demutualization**” (2 marks)

QUESTION FIVE (20 MARKS)

- a) Financial crisis 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 crises. (6 marks)
- b) Explain the main derivative instruments that trade in financial markets clearly identifying those that trade in the Kenya financial market. (4 marks)
- c) Cooperatives are based on the cooperative values of "self-help, self-responsibility, democracy and equality, equity and solidarity" and the seven cooperative principles: Highlight and explain any six Cooperative principles (6 marks)
- d) The objectives of bank regulation, and the emphasis, vary between jurisdictions. Explain four objectives of bank regulation. (4 marks)