



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN/BUNGOMA/WEBUYE/KAPSABET/MUMIAS/NAIROBI CAMPUS

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER EXAMINATIONS

MAIN EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCF 300

**COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS
EXAMINATION**

DATE: THURSDAY 8TH MARCH 2018

TIME: 3-5PM

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes **ZERO** tolerance to examination cheating

This Paper Consists of 3 Printed Pages.

Please Turn Over.

QUESTION ONE (30 MARKS)

- a) Discuss the role of financial intermediation in the financial system. **(5marks)**
- b) Discuss how the following instruments are used to borrow funds in the financial markets.
- i) Repurchase agreements **(2marks)**
 - ii) Commercial paper **(2marks)**
 - iii) Bankers acceptance **(2marks)**
- c) An investor is considering investment in two securities with the following characteristics; Certificate of deposit shs. 100000, Duration 90 days at an interest rate of 8%. The other alternative is Treasury bills worth shs.100000 with a discount rate of 7% and duration to maturity of 60 days. Assuming a 360 days year,
- i) Calculate the discount price and face value of the two instruments. **(4marks)**
 - ii) Calculate a bond equivalent yield for each to identify which security pays a higher rate. **(4 marks)**
- d) Distinguish between the following types of international bonds;
- i) Eurobond **(2 marks)**
 - ii) Foreign bond **(2 marks)**
 - iii) Global bond **(2 marks)**
- e) Explain how Insurance companies function as financial intermediaries in the financial market. **(5marks)**

QUESTION TWO (20 MARKS)

The Central Bank of Kenya (CBK) as a regulatory body mandated to regulate and supervise the operations of commercial banks in Kenya through the provisions of the CBK Act (Cap 491) recently carried out an evaluation on the performance of three commercial banks using the CAMELS rating system. The results of this evaluation based on the CAMELS scale of 1 to 5 were as given below;

Bank	Capital	Assets	Management	Earnings	Liquidity	Composite/Average rank.
X	1	2	1	1	1	1
Y	2	1	3	3	3	3
Z	4	4	5	5	5	5

Required:

- a) Interpret the results obtained based on the individual parameters given (1) as best performer and (5) weakest performance.**(10 marks)**
- b) Based on the interpretation made in (a) above, identify the kind of supervisory attention that the CBK should direct to each bank.**(10marks)**

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QUESTION THREE (20 MARKS)

- a) Describe the problems caused by asymmetric information in the lending/ borrowing transaction and explain how financial intermediaries are able to reduce these problems. **(5marks)**
- b) Describe three types of retirement funds and identify three areas of regulation for the sector **(6marks)**
- c) What are mutual funds and how do they participate in the mobilisation of funds for investment and growth. **(4marks)**
- d) Explain why money markets exist and how do they assist corporations sustain their operations? **(5marks)**

QUESTION FOUR (20 MARKS)

- a) Management of credit risk and interest rate risk among banking institutions is critical to their performance. Discuss the causes of these risks and how they can be managed by financial institutions. **(10marks)**
- b) Explain five limitations of credit scoring models used in managing credit risk.**(10marks)**

