



**MASINDE MULIRO UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
(MMUST)**

**MAIN/BUNGOMA/NAIROBI/WEBUYE CAMPUS**

**UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR**

**SPECIAL EXAM**

**SECOND YEAR SEMESTER TWO EXAMINATIONS**

**FOR THE DIPLOMA  
OF  
BUSINESSMANAGEMENT**

**COURSE CODE: DBF 235**

**COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS**

**DATE: Friday 29<sup>th</sup> July 2022**

**TIME: 8-10am**

---

**INSTRUCTIONS TO CANDIDATES**

Answer **QUESTION ONE** and **ANY OTHER TWO (2)** questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over. 

**QUESTION ONE ( 30 MARKS)**

You recently attended a conference on the investment options available in the country in which one of the speakers said the following; 'Investors do not like risk and they must be compensated for taking on risk—the larger the risk, the more the compensation. An important question about financial markets, which has implication for the different strategies that investors can pursue, is: Can investors earn a return on financial assets beyond that necessary to compensate them for the risk?

Economists refer to this excess compensation in the stock markets as an abnormal return. Whether this can be done in a particular financial market is an empirical question. If a strategy is identified that can generate abnormal returns, the attributes that lead one to implement such a strategy is referred to as a market anomaly. This problem of how efficiently financial market is pricing the assets traded in those market, is referred to as market efficiency'.

Required:

- a) In view of the above, define efficient markets hypothesis and discuss the three main types of EMH. (12 Marks)
- b) You a guru in financial institutions and markets. Which advice would you give to a client who wants to raise short term capital for his business? (10Marks)
- c) Discuss how you would classify financial markets where securities are traded. (8 Marks)

**QUESTION TWO ( 20 MARKS)**

- a) The role of financial intermediaries is to create more favourable transaction terms than could be realized by lenders/investors and borrowers dealing directly with each other in the financial market. Discuss. (12 Marks)
- b) Discuss the primary functions of commercial banks. (8 Marks)

**QUESTION THREE( 20 MARKS)**

- a) Different financial markets serve different types of customers or different parts of the country. Financial markets also vary depending on the maturity of the securities being traded and the types of assets used to back the securities. How would you classify financial markets in your country? (12 Marks)
- b) Discuss the three main types of securities firms highlighting the differences in their operations. (8 Marks)

**QUESTION FOUR( 20 MARKS)**

- a) Mutual funds are the dominant non depository financial institution when measured in total assets. Mutual funds are classified into three broad types. How would you classify them? (10 Marks)
- b) Discuss some of the roles of insurance companies in the economy. (10 Marks)