



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

**FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

COURSE CODE: FINANCIAL MARKETS AND INSTITUTIONS

COURSE TITLE: MBA 830

DATE: MONDAY, 25TH JULY 2022

TIME: 2-5 PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE AND ANY OTHER TWO (3) QUESTIONS

TIME: 3 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

QUESTION ONE

(a) A company X has funded its operations by bank loans extensively. The interest rate on the loans is tied to the market interest rate and is adjusted every six months. Thus the cost of funds is sensitive to interest rate movements. Because of expectations that the economy of the country would strengthen during the next year, the company plans further growth through investments. The company expects that it will need substantial long term financing to finance growth and plans to borrow additional funds in the debt market.

- i) What can be the company's expectation about change in interest rates in the future? Why?(3mks)
 - ii) How would these expectations affect the company's cost of borrowing on its existing loan and on future debt (3mks)
 - iii) How these expectations would affect the company's decision when to borrow funds and whether to issue fixed rate or floating rates(3mks)
- (b) Explain the benefits that are enjoyed by investors because of the existence of organized security exchanges.(4 mks)
- (c) With examples briefly describe and explain the objectives and the principles of the financial regulation in the development of financial system
- (d) The Nairobi securities exchange market segments play a critical role in the functioning and activities of the capital markets. Discuss some of the functions and the contributions of the segments.(6 marks)
- (e) Discuss the intermediaries that play an important role in the development of the primary markets. What are some of the contributions made by these organizations (6mks)

QUESTION TWO

- a) Discuss the challenges experienced by the international financial system (5mks)
- b) Why might the increased protection provided to individual traders by derivative markets increase the risk of the whole financial system running into difficulties? (15mks)

QUESTION THREE

- a) Discuss the concept of asymmetric information .Explain how it may cause managers to serve as investors (5mks)
- b) What is the role of an investment bank that serves the underwriter in an IPO? How can it ensure, that the firm does not issue too much shares? (15mks)

QUESTION FOUR

- a) Consider the relative advantages and disadvantages of using forward contracts, future contracts and options as a means of speculation(5mks)
- b) Discuss the advantages and the disadvantages to deficit and surplus units of using organized financial markets and financial intermediaries (15 mks)

QUESTION FIVE

- a) Among the financial intermediaries commercial Banking has received unprecedented attention, explain the rationale (5 mks)

- b) What is a financial system? Explain using a diagram to illustrate the functions of the financial system. **(8mks)**
- c) Discuss the relevance of options', future and forward contracts, and interest rate swap agreements in financial risk management. How can they be applied in risk management? **(7mks)**