



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

MAIN EXAMINATION

**FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN
BUSINESS ADMINISTRATION**

COURSE CODE: FINANCIAL MARKETS AND INSTITUTIONS

COURSE TITLE: PBA 925

DATE: MONDAY 25TH APRIL 2022 TIME: 2-5PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE AND ANY OTHER THREE (3) QUESTIONS

TIME: 3 HOURS

MMUST observes ZERO tolerance to examination cheating

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

MAIN EXAMINATION

INSTRUCTIONS TO CANDIDATES: QUESTION ONE COMPULSORY AND ANY

OTHER THREE

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) What are mutual funds and how do they participate in the mobilization of funds for investment and growth.(4 mks)
- (c) Discuss the nature of assets and liabilities for a commercial bank as seen on a balance sheet. (5marks)
- (d) Explain five factors that should be taken into account by a businessman in making the choice between financing by short-term and long-term sources. (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) What is the relationship between financial markets, instruments and institutions . (6marks)
- b) Explain the characteristics of capital market instruments, their risk and potential return that are available to borrowers. . (8 marks)
- c) Information asymmetry and its attendant problems continuously threaten the financial sector in any economy, explain the concept in the context of kenya's financial system and highlight how it can be mitigated so as to maintain financial stability. . (6marks)

QUESTION THREE

- 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) Describe the financial market structure with the instruments and players that promote them for sound economic system. **(10marks)**

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) What are pension institutions and how do they participate in the capital formation in Kenya's economy? **(5marks)**
- a) Explain the role of the insurance sector in providing short term and long term funds for growth and development in Kenya.
- b) Discuss the relevance of options', future and forward contracts, and interest rate swoop agreements in financial risk management. How can they be applied in risk management? **(7mks)**