



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN CAMPUS

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCF 300

**COURSE TITLE: FINANCIAL MARKETS AND
INSTITUTIONS**

DATE: Wednesday 21ST December 2022

TIME: 3.00-5.00PM

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 2 Printed Pages. Please Turn Over.

QUESTION ONE (30 MARKS)

- (a) Discuss the role of the Kenya's capital market on economic growth of the country. Identify some of the financial instruments that are traded in the market **(8 mks)**
- (b) A bond pays a coupon of shs 4 every six months, and shs100 will be repaid at maturity. There are two years to maturity and the next coupon is due in six months. The redemption yield on similar bonds is 6% p.a. Estimate the fair price of the bond. **(6 mks)**
- (c) With examples briefly describe and explain the objectives and the principles of the financial regulation in the development of financial system **(6 mks)**
- (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. **(5 mks)**
- (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 **(5 mks)**

QUESTION TWO (20 MARKS)

- a) Discuss the role and challenges experienced by the international financial system **(5 mks)**
- 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 (20 MARKS)

- a) Discuss the concept of asymmetric information .Explain how it may cause managers to serve as investors **(5 mks)**
- 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? **(15 mks)**

QUESTION FOUR (20 MARKS)

- 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. **(8 mks)**
- c) Discuss the relevance of options', future and forward contracts, and interest rate sloop agreements in financial risk management. How can they be applied in risk management? **(7 mks)**