



MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 305: FINANCIAL MARKETS AND INSTITUTIONS

Date: 4/8/2016

Time: 8:30 – 10:30 AM

INSTRUCTIONS

Answer Question One and Any Other Two Questions

- 1)
 - a) State and briefly explain the three forms of market efficiencies. (6 marks)
 - b) Give five differences between capital markets and money markets. (5 marks)
 - c) State four roles played by interest rates in the economy. (4 marks)
 - d) What is the relationship between interest and the price of a bond. (2 marks)
 - e) Explain the following functions of financial intermediaries
 - i) Assistance in price discovery. (2 marks)
 - ii) Improved diversification for the lender. (2 marks)
 - iii) Efficient allocation of funds. (2 marks)
 - f) State and explain any two instruments and requirements of bank regulation. (4 marks)
 - g) Distinguish between forwards markets and future markets. (4 marks)
- 2)
 - a) Distinguish between global debt problem and contagion. (4 marks)
 - b) Analyze the factors that might have led to the existence of the global debt problem. (5 marks)

- c) Suggest the possible solution to global debt problem. (5 marks)
- d) Distinguish between financial engineering and financial innovations. (6 marks)
3. a) Explain five benefits associated with bonds (10 marks)
- b) Capital markets are not necessary efficient. This therefore gives rise to information asymmetry which refers to unreliable effects in the operations of the markets. Information asymmetry interferes with the operations of the markets and achievement of its role of financial mobilization and intermediation in the various sectors of the economy required. Explain the term adverse selection “moral hazards” in relation to information asymmetry. (6 marks)
- c) Distinguish between investment trusts and unit trusts. (4 marks)
4. a) Explain the following terms and give examples in each case. (6 marks)
- i) Watered capital
- ii) Aggressive shares
- iii) Margin purchase
- b) Capital market authority is a regulatory body launched in 1989 to assist in creating conducive environment for the growth and development of the countries Capital markets. Discuss the contribution of CMA in development of capital markets in Kenya. (10 marks)
- c) Who is a stag in stock exchange market? (2 marks)
- d) What is the meaning of short selling? (2 marks)
5. a) Discuss the incentives that the government has given companies to induce them to go public. (10 marks)
- b) One of the major indicators of stock market development is the increase in the varieties of products dealt with in the market such as derivatives. Explain why derivative trading is absent in developing markets such as the Nairobi stock exchange (10 marks)