JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

MASTERS OF BUSINESS ADMINISTRATION

TIME: 3.00 HOURS

UNIVERSITY EXAMINATION

KISII CAMPUS

COURSE CODE: MBA 817

ACADEMIC YEAR OF STUDY: 2018/2019

COURSE TITLE: FINANCIAL INSTITUTION MARKETS

DATE:

INSTRUCTIONS:

1. **Answer ANY FOUR Questions**
2. **Candidates are advised not to write on the Question paper**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room**

QUESTION ONE

a) Other things being equal, which of these would you expect to have the higher yield to maturity?

i.) Corporate of Treasurer bond?

ii.) Corporate or local authority bonds?

iii.) AA or A corporate bond? (3marks)

b) What is a junk bond? Why would any retional investor buy a junk bond when it is clearly levelled as such? (4marks)

c) Explain what security exchange markets means vis-à-vis security market indexes. How are they a measure of economic activities? Provide with example from major securities market. (8marks)

QUESTION TWO

a) Globally, financial institutions, specifically banks are exposed to a variety of business and financial risk. Explain three risks and how these institutions mitigate against them. (5marks)

b) A certain stock is expected to pay end year dividend of kshs. 10 per share. What will be there market value of the share if:

i) The dividend is not required to increase and the shareholder's required return is 10%

ii) The dividend is expected to grow by 5% p.a with a required return of 10%

iii) The dividend is expected to by 10% p.a and the required return is 15% (10 marks)

QUESTION THREE

a) Why are investors attracted to zero coupon bonds? (A zero-coupon bond with a face value of kshs. 10,000 has been with a maturity period of 10 years) the market return for such type of bonds is 12%. What would be the market value of the bond (8marks)

b) The expected return of the treasury of the security with a beta coefficient of 1.3 is available for sale. What will be required rate of return for an investor wanting to buy the asset? Shoe your calculations clearly. (7marks)

QUESTION FOUR

a) Contract the characteristics of future and options contracts. Indicate each instrument its benefit to risk mitigation (5marks)

b) Financial instruments and the financial intermediaries are important to the economy. Discuss (3msrks)

c) Explain the term globalization of the financial of the financial market and particularly in relation to the following.

i) Euro currency market
ii) Euro bods
iii) Euro notes~(7marks)

QUESTION FIVE

a) A bank enters a reverse repurchase agreement in which it agrees to buy treasury security from one of its correspondent bank at a price of 10 million with the promise to sell the securities back at a price of kshs. 10,008,548 after 5 days. Calculate bond the discount yield for the investing banks. (5marks)

b) Explain the following derivative market A bank enters a verse repurchase agreement in which it agrees to buy treasury security from one of its correspondent bank at a price of 10 million with the promise to sell the securities back at a price of kshs. 10,008,548 after 5 day. Calculate both the discount yield for the investing banks. Instruments and one example each of their applications:
   i) Futures
   ii) Options
   iii) Swaps
   iv) Caps, floor and collar (10mrks)

QUESTION SIX

a) A bank enters a reverse repurchase agreement in which it agrees to buy treasury security from one of its correspondent bank at a price of 10 million with the promise to sell the securities back at a price of kshs. 10,008,548 after 5 days. What are both the discount and bond equivalent yield of this bond? (5marks)

b) A bond is listed to pay 10% coupon rate payable semi-annually. The bond mature in years and has a face value of KES 100, 0000/=. the investors required rate of this bond: (10marks)