JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH

THIRD YEAR SECOND SEMESTER 2018/2019 ACADEMIC YEAR

MAIN CAMPUS EVENING

COURSE CODE: ABA 318
COURSE TITLE: FINANCIAL INSTITUTIONS MARKETS

TIME: 2HOURS

Instructions:

1. Answer **ANY THREE** 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 would you expect to have the higher yield to maturity?

i. Corporate or Treasury bond?

ii. Corporate or local authority bonds?

iii. AA or A corporate bond? (8 marks)

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

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

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. (5 marks)

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 grow by 10% p.a and the required return is 15%

(15 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 issued 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? (10 marks)

b) The expected return of the treasury of the securities in the market is at 8% p.a the expected market return for a particular 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. (10 marks)

QUESTION FOUR

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

b.) "Financial instruments and the financial intermediaries are important to the economy", Discuss. (5 marks)

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 bonds

iii. Euro notes (10 marks)

QUESTION FIVE

(a) “ the financial markets will not reward investors for risks that can be eliminated”. Do you agree or disagree? Explain. (10 marks)

(b) An investor is thinking in a stock which tends to do well in an expanding economy and very poorly in a recession. The possible returns are described as below:-

State of the Economy	Probability	Forested
Econimic Boom	0.50	40%
Normal Year	0.30	15%
Recession	0.20	-30%

Required; - Calculate the expected return and standard deviation of the security