

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND  
TECHNOLOGY  
KISUMU CAMPUS  
UNIVERSITY EXAMINATIONS 2012/2013  
THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE  
OF BACHELOR OF BUSINESS ADMINISTRATION WITH IT**

**ABA 318: FINANCIAL MARKETS AND INSTITUTIONS**

**INSTRUCTION:**

1. Answer questions **ONE** and any other **TWO** questions.  
Question **ONE** is **COMPULSORY**
2. Question one carries 30 marks and the rest 20 marks each.
3. Show all your workings clearly

**QUESTION ONE (30 MARKS)**

- (a) Highlight three characteristics of money market instruments. (6 marks)
- (b) Briefly describe the economic forces that affect interest rates (10 marks)
- (c) With an aid of a diagram, explain the various steps involved bankers acceptances taking an example of a Kenyan importer and a Japanese exporter. (10 marks)
- (d) Assume that a money market instrument with a par value of Kshs. 1,000,000 has a maturity of 270 days. If an investor required rate of return on similar risk investment is 12% p.a. determine the price of the instrument today. (4 marks)

**QUESTION TWO (20 MARKS)**

According to loanable funds theory of interest rates, the demand for loanable funds is driven by households, businesses and governments. Discuss the foregoing statement providing illustrations where necessary. (20 marks)

**QUESTION THREE (20 MARKS)**

The risk structure of interest rate is determined by a number of characteristics exhibited by different bonds. Discuss. (20 marks)

**QUESTION FOUR (20 MARKS)**

Consider a case of a farmer who has just planted maize and expect to harvest in six months time. The farmer is concerned about taking on the risk of fluctuating maize prices, if the price of maize fall between now and harvest time then the farmer would incur losses. Describe how the farmer may apply the financial derivatives to reduce the risk of fluctuations in maize prices. (20 marks)

**QUESTION FIVE (20 MARKS)**

- (a) Describe any three securities traded in the money markets (8 marks)
- (b) Highlight any four economic functions of financial institutions to the financial system. (12 marks)