



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BUSINESS & ECONOMICS**  
**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS**  
**ADMINISTRATION WITH IT**  
**3<sup>RD</sup> YEAR 2<sup>ND</sup> SEMESTER 2019/2020 ACADEMIC YEAR (PART TIME)**

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**COURSE CODE: ABA 318**

**COURSE TITLE: Financial Markets**

**EXAM VENUE:**

**STREAM : (BBA-FINANCE OPTON)**

**DATE:**

**EXAM SESSION:**

**TIME: 2 HOURS**

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**Instructions:**

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 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 (30MARKS)- COMPULSORY**

- (a) (i) Discuss three major factors that determine the efficiency of financial system in an economy. (6 marks)  
(ii) Examine any three intervention measures that a government can put in place to address financial market failures in an economy. (6 marks)
- (b) State and explain the two major financial markets operating in Kenya (4 marks)
- (c) Explain any four functions of Central Bank of Kenya (4 marks)
- (d) Highlight six factors that affect share prices in Nairobi Stock exchange. (3 marks)
- (e) State and explain any four factors that generally affect interest rates in the financial markets (4 marks)
- (b) Examine Liquidity preference theory and clearly explain the three motives for holding cash and not bonds. (4 marks)

**QUESTION TWO (20 MARKS)**

- (a) (i) What is Portfolio theory? (2 marks)
- (ii) The following information was extracted from financial statements of A and B companies.

Economic condition	probability	A Ltd (%)	B Ltd. (%)
Higher	0.2	-9	17.0
Good	0.2	6	10.5
Average	0.2	16	5.5
Bad	0.2	24	1.5
Worse	0.2	36	-6.5

Required; determine

- (i) Expected returns for each company (2 marks)  
(ii) risk of each Company (3 marks)  
(iii) Optimal portfolio risk. (5 marks)
- (b) How relevant are Financial markets & institutions in an economy (8 marks)

### **QUESTION THREE(20MARKS)**

(a)(i) Stock Exchange Index is a measure of relative changes in prices of stocks from one period to another. Nairobi Securities Exchange 20 - share Index use 20 companies in computation of the index. Highlight four uses such stock exchange index. (4 mks)

(ii) Explain the following stock market terminology:

Broker (1 mark)

Bulls (1 mark)

Bears (1 mark)

Under writers (1 mark)

(iii)Examine the extent to which Nairobi Securities Exchange contributes in developing the Kenyan economy. (6 marks)

(b)Discuss role of Capital markets Authority in developing the Kenyan Capital Market (6 marks)

### **QUESTION FOUR (20MARKS)**

(a) Discuss any four non-banking institutions or financial intermediaries in Kenya. (8marks).

(b) The government of Kenya established Development Banks and specialized Development financial institutions to cater specifically for the otherwise unattractive but essential sectors such as Tourism, Agriculture, rural housing, rural enterprise, small commercial business (Jua kali), etc. For what specific reasons were such institutions established in Kenya ( 4 marks)

(c) Examine the role of Commercial Banks in the Kenyan economy (8marks)

### **QUESTION FIVE (20MARKS)**

(a)Central Depository System (CDS) a computerized ledger system that enable the holding or transfer of securities without the need for physical movement.

(i) Highlight any five functions of CDS (5 marks)

(ii) State and explain any five parties involved in CDS (5 marks)

(b) (i) what are the advantages of investing in shares ( 5 marks)