



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
3RD YEAR 2ND SEMESTER 2016/2017 ACADEMIC YEAR
SPECIAL EXAM

COURSE CODE: ABA 318

COURSE TITLE: FINANCIAL MARKETS & INSTITUTIONS

EXAM VENUE: LAB 1

STREAM: (BBA-FINANCE)

DATE: 04/05/16

EXAM SESSION: 2.00 – 4.00 PM

TIME: 2 HOURS

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

- (a) (i) Discuss three major factors that determine the efficiency of financial system in the Kenya economy. (6 marks)
- (ii) Examine any three intervention measures that the Kenyan government can put in place to address financial market failures in the Kenyan economy. (6 marks)
- (b) State and explain the two major financial markets operating in Kenya (4 marks)
- (c) Explain the role of commercial banks in the Kenyan economy (4 marks)
- (d) State and explain any four factors that generally affect interest rates in the financial markets (4 marks)
- (e) Examine six factors that affect share price movements in Nairobi securities exchange. (6 marks)

QUESTION TWO

- (a)(i) The following 6 companies constitute the stock index of a certain country.

Company	A	B	C	D	E	F
Today's share price	20	52	83	12	78	100
Yesterday's share price	25	53	83	10	75	96

Using yesterday's share price as base year, Compute the stock market index for the day. (3 marks)

- (ii) Highlight two uses of such stock index. (2 marks)

(ii) Explain the following stock market terminology:

- Broker (1 mark)
- Bulls (1 mark)
- Bears (1 mark)

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

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

QUESTION THREE

(a) (i) What is Portfolio theory? (2 marks)

(ii) The following information was extracted from financial statements of X and Y companies.

Economic condition	probability	X Ltd (%)	Y 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 (2marks)

(ii) risk of each Company (3marks)

(iii)Optimal portfolio risk. (5 marks)

(b) Examine the role of Financial markets & institutions the Kenyan economy (8 marks)

QUESTION FOUR

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

(b)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)

(c) Examine the role of Central Bank of Kenya (5 marks)

QUESTION FIVE

(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.

(i) State and explain any four such institutions

(8 marks)

(ii) Highlight any four challenges faced by Development Banks and specialized Development financial institutions in Kenya today.

(4 marks)