

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

1ST SEMESTER 2023/2024 ACADEMIC YEAR

THIRD YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF COMMERCE

BCOM 313: FINANCIAL INSTITUTIONS AND MARKETS

STREAM:

TIME: 2 HRS

DAY: FRIDAY [14.30-16.30 P.M]

DATE: 15/12/2023

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.



INSTRUCTIONS:

- (i) Attempt ALL question
- (ii) Do not write anything on your question paper.
- (iii) Use very recent and relevant examples in arguing out your ideas

QUESTION ONE

- (a) The government is a major participant in the Kenyan money markets. Assume that Adhiambo wishes to invest in a 182-day Treasury security issued by the Government of Kenya. The bill has a quoted discount of 12.7 percent and a face value of sh.1000.

Required;

- (i) Compute the price at which the investor would pay for the investment. **(2 marks)**
- (ii) Determine the compound annualized rate of return he would earn. **(3 marks)**
- (iii) Compute rate of simple annualized return would he earn from the investment **(3marks)**

- (b) One of the securities traded in the money markets is Certificate of Deposits (CDs). Suppose Wambua invested in a Certificate of Deposit worth Ksh.2million with 11 percent rate of return and a maturity of 273 days:

- (i) Determine the amount of payoff the investor would receive upon maturity. **(2 marks)**
- (ii) Suppose Wambua later sold the CD to Kirimi 182 days remaining to maturity and assume that on that day similar CDs with same risk and are delivering 9.3 percent return, determine the price that Kirimi will pay for the investment. **(2 marks)**
- (iii) Show proof that Kirimi will indeed earn a return of 9.3 percent. **(3 marks)**

- (c) Explain what Commercial Banks are, and discuss the important functions performed by the Central Bank of Kenya in the Kenyan economy. **(15 marks)**

QUESTION TWO

- (a) Recently, the Cabinet Secretary for National Treasury proposed the consolidation of financial regulation in Kenya. Explain the meaning of consolidated financial regulation and discuss both the merits and demerits of such approach to regulation of financial system.

(10 marks)

- (b) Discuss how the government regulates financial markets in Kenya and identify some of the regulatory gaps which exists. **(10 marks)**

QUESTION THREE

- a) Using appropriate illustrations and relevant examples, explain how funds and securities flow through the Kenyan financial system. **(10marks)**
- b) Discuss the important function performed by Nairobi Securities Exchange in the development of the Kenyan economy. **(10 marks)**

QUESTION FOUR

- a) Explain the meaning of financial innovation and identify some of the financial innovations currently being witnessed in Kenyan financial markets. **(10 marks)**
- b) Discuss some of the importance and dangers of the emerging financial innovations in the domestic and global financial markets. **(10 marks)**

