



KIBABII UNIVERSITY COLLEGE

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Knowledge for Development

FACULTY OF EDUCATION AND SOCIAL SCIENCES

UNIVERSITY REGULAR EXAMINATIONS

2013/2014 ACADEMIC YEAR

3RD YEAR 1ST SEMESTER EXAMINATION

FOR THE DEGREE OF COMMERCE

COURSE CODE: BCF 300

COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS

DATE: 15TH AUGUST, 2014

TIME: 9:00A.M.-12NOON

INSTRUCTIONS: Answer Question One and Any Other Three Questions

QUESTION ONE

- a) State and explain types of corporate bonds (6 Marks)
- b) Explain advantages of certificate of deposits used in money markets (3 Marks)
- c) Explain economic functions of financial markets (6 Marks)
- d) Explain categories of financial instruments and their expected returns (10 Marks)

SECTION B

QUESTION TWO

- a) Assume that a bank is providing a company with a loan of 1000 Euro for one year at a real rate of interest of 3 per cent. At the end of the year it is expected to receive back 1030 Euro of purchasing power at current prices. Calculate the rate of return required by the bank. (10 Marks)
- b) Discuss any two financial instruments used in capital markets (5 Marks)

QUESTION THREE

- a) The price of Kshs 8000 face value commercial paper is Kshs 7,930. If the annualized discount rate is 4% when will the paper mature (6 Marks)
- b) What is the current yield for a bond that has a par value of Kshs 1 million and a coupon interest of 10% the current market price for the bond is Kshs 9210 (9 Marks)

QUESTION FOUR

Explain the following theories of term structure of interest rates (15 Marks)

- a) Liquidity premium theory
- b) Expectations theory
- c) Market segmentation theory

QUESTION FIVE

- i) State and explain the main participants in money Markets (5 Marks)
- ii) Define the term derivative markets explaining atleast 3 markets of such kind (10 Marks)