



GARISSA UNIVERSITY COLLEGE

(A Constituent College of Moi University)

**UNIVERSITY EXAMINATION 2016/2017 ACADEMIC YEAR THREE
SECOND SEMESTER EXAMINATION**

SUPPLEMENTARY/SPECIAL EXAMINATION

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 311

COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS

EXAMINATION DURATION: 3 HOURS

DATE: 25/09/17

TIME: 2.00-5.00 PM

INSTRUCTION TO CANDIDATES

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**
- **Use sketch diagrams to illustrate your answer whenever necessary**
- **Do not carry mobile phones or any other written materials in examination room**
- **Do not write on this paper**

This paper consists of TWO (2) printed pages

please turn over



QUESTION ONE (COMPULSORY)

- (a) Salama Ltd is a company that operates various retail outlets across the country. The company has experienced rapid expansion in the recent past. The current management is overwhelmed by this expansion. The managing director approaches you for advice concerning the possibility of going public. You are required to clearly explain to the managing director the benefits that will accrue to the company if it went public [10 marks]
- (b) Briefly explain the various forms of efficient market hypothesis [9 marks]
- (c) Discuss the concept “moral hazard” as applied to banking and describe possible solutions to it. [6 marks]

QUESTION TWO

- (a) Discuss the loanable funds theory. [6 marks]
- (b) Banks mitigate risks through use of derivatives. Explain any four derivatives commonly used by banks to mitigate risks [9 marks]

QUESTION THREE

- (a) With reference to the Banking (Amendment) Act 2015, explain the pricing of loans by commercial banks in Kenya. [7 marks]
- (b) Describe any four roles played by financial intermediaries in the economy. [8 marks]

QUESTION FOUR

Discuss any five challenges facing capital markets authority of Kenya. [15 marks]

QUESTION FIVE

- (a) Describe the classification of real estate investment trusts (REITs) [6 marks]
- (b) Discuss any three-term structure theories of interest rate. [9 marks]

QUESTION SIX

In the recent past, money markets in Kenya have gained a lot of prominence. However, these markets have not attained their full potential in spurring economic growth. Identify and briefly explain any **FIVE** challenges faced by money markets in Kenya. [15 marks]

