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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR THREE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 311**

**COURSE TITLE: FINANCIAL INSTITUTION & MARKETS**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 05/04/2021 TIME: 12.00-2.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) 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)**

1. In Kenya the recent economic disruption has been grave and the social toll has been detrimental for many sectors of the economy. The financial landscape is changing and the crowd is uniquely suited to help banks and other financial institutions solve some of the challenges they face, discuss the current emerging issues in the global financial market **[7 marks]**
2. With relevant examples Comment the following terms
3. forward foreign exchange **[2 marks]**
4. Option contract **[2 marks]**
5. Swap contract **[2 marks]**
6. Financial institutions are of central importance to the development and integration of markets globally. However, Kenyan financial institutions must now compete not only with other domestic financial institutions for a share of these markets but increasingly with foreign financial institutions. Discuss Advantages and Disadvantages of International Expansion **[8 marks]**
7. Explain any two forms of efficient market hypothesis **[4 marks]**
8. Discuss any three (3) types of Nonbank Financial Institutions **[5 marks]**

**QUESTION TWO**

1. Discuss the roles played by the Central bank of Kenya (CBK) in the regulation of the financial market of the country.  **[4 marks]**
2. Elucidate the primary roles of the financial Intermediaries **[5 marks]**
3. Explain the benefits that will accrue to the company that is listed in the stock exchange

 **[6 marks]**

1. Discuss Disadvantages of Financial Investment. **[5 marks]**

**QUESTION THREE**

1. Discuss the various types of capital market instruments  **[9 marks]**
2. Comment the benefits of financial markets **[5 marks]**
3. Hedge funds are a type of investment pool that solicits funds from (wealthy) individuals and other investors (e.g., commercial banks) and invests these funds on their behalf. In relation to the above, discuss three (3) classifications of hedge funds. **[6 marks]**

**QUESTION FOUR**

1. Elucidate the requirements encouraging financial intermediaries to diversify their assets

 **[8 marks]**

1. Discuss any four (4) types of financial arbitrage **[8 marks]**
2. Describe four (4) fundamental types of financial risk which are found in many financial institutions. **[4 marks]**

**QUESTION FIVE**

1. Explain the four (4) components of the formal financial system **[8 marks]**
2. Discuss the concept “adverse selection” as applied to banking and describe possible solutions to it. **[6 marks]**
3. Discuss any three-term structure theories of interest rate. **[6 marks]**