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**University Examinations 2015/2016**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF

BUSINESS ADMINISTRATION

**BFA 5230: FINANCIAL MARKETS AND INTERMEDIATION**

**DATE: AUGUST 2016 TIME: 3 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***three***questions.

**QUESTION ONE (40 MARKS)**

1. In the recent past, financial markets and institutions in Kenya experienced tremendous growth. Discuss the factors that contributed to this growth. (10 marks)
2. Derivative instruments play a great role in financial markets. Explain their importance to investors (6 marks)
3. ‘No market will do well without any form of regulation’. Explain the role of financial regulation to our economy. (6 marks)
4. Explain the differences between the following financial terms:
5. Eurobonds and foreign bonds (3 marks)
6. Brokerage firms and investment banks (3 marks)
7. Financial deepening and financial repression (3 marks)
8. Exchange market and over the counter market. (3 marks)
9. Discuss the incentives that have led to a rapid pace of financial innovation in Kenya in the recent past (6 marks)

**QUESTION TWO (20 MARKS)**

1. Recently, some financial institutions in Kenya experienced financial difficulties leading to financial panics. Briefly explain types of regulations implemented by government to deal with this panic in the country. (12 marks)
2. Using suitable examples in Kenya, explain the differences between the following:
3. Adverse selection and moral hazard (4 marks)
4. Maturity intermediation and denomination intermediation (4 marks)

**QUESTION THREE (20 MARKS)**

1. The financial institutions, the financial markets and their products are regulated through various systems of regulations. Discuss any three major system of regulating financial institutions. (12 marks)
2. Explain briefly how Basel accords can be used by financial institutions in mitigating risks

(8 marks)

**QUESTION FOUR (20 MARKS)**

1. Investment banks play a great role for companies making new issues. Discuss types of underwriting arrangements between the investment banks and the issuing companies. (6 marks)
2. Financial innovations have become inevitable tools for financial systems to improve their efficiency. Discuss the potential benefits of financial innovations to financial systems in Kenya. (8 marks)
3. By use of practical examples, explain how financial institutions solve the asymmetric problems in Kenya (6 marks)

**QUESTION FIVE (20 MARKS)**

The government of any country must prevent any financial crisis to occur or spread from another country to its own country.

1. Explain the factors that can cause a financial crisis in a country. (7 marks)
2. Explain the measures that the government can take to avert such crisis (7 marks)
3. Explain the role of Capital Market Authority in Kenya (6 marks)