



PIONEER INTERNATIONAL UNIVERSITY

Powered by Intellect, Driven by Values.

UNIVERSITY EXAMINATIONS

BACHELOR OF COMMERCE 3.2 AND 4.1

UNIT CODE: FNCE 3110

UNIT NAME: FINANCIAL INSTITUTIONS AND MARKETS

SEMESTER: MAY - AUGUST 2022

ACADEMIC YEAR: 2022/2023

DATE: JULY 2022

TIME: 2:00 HOURS

INSTRUCTIONS: Answer question one (30 marks) and any other two

QUESTION ONE (30 MARKS)

- a) Non-banking financial institutions play a great role in an economy of a country.
Describe the main functions of these institutions. (8 Marks)
- b) Financial markets refer to an elaborate system of the financial institution and intermediaries and arrangement put in place and developed to facilitate the transfer of funds from surplus economic units (savers) to deficit economic units (investors). Explain five characteristics of a good and efficient financial market in a country (5 Marks)
- c) Financial innovations have been witnessed in the Kenyan financial sector in recent years. Discuss ways in which financial innovations improve economic performance of a country. (7 marks)
- d) Discuss four ways in which an organisation involved in international trade can hedge against foreign exchange risk. (8-marks)
- f) Briefly explain two main reasons why financial institutions in any country are subjected to regulations. (2 marks)

QUESTION TWO (20 MARKS)

- a) Rashid has just won the lottery and would like to invest in the money market in the short term before he can make a decision on how to use the money, explain to him five money market instruments that he can invest in and the channel that he can use for his investment. (10 marks)
- b) Discuss the causes of increased anti-money laundering activities in Kenya. (10 Marks)

QUESTION THREE (20 MARKS)

- a) Commercial banks play a major role in the economy of a country, explain the four main principles of commercial bank management that must be taken into consideration by the bank managers. (8 Marks)

- b) Differentiate between the following types of financial markets

- i. Spot versus forward market
- ii. Organized exchange versus over-the counter market
- iii. Call versus continuous market
- iv. Primary versus secondary market
- v. Debt versus equity market
- vi. Private versus public market

(12 marks)

QUESTION FOUR (20 MARKS)

- a) Define fiscal policy and explain in brief the four main objectives of fiscal policy in a developing country. (5 Marks)
- b) Identify five (4) instruments of monetary policy used by the Central Bank of Kenya and their expectations in achieving monetary policy objectives. (10 Marks)
- c) Explain five functions performed by the African Development Bank to it's member states. (5 marks)