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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 6th December, 2023
Time: 2.30pm –4.30pm

KFI 305 - FINANCIAL INSTITUTIONS AND MARKETS 11

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) The question of whether fiscal policy stimulates growth has dominated theoretical and empirical debate for a long time. One viewpoint believes that government involvement in economic activity is vital for growth, but an opposing view holds that government operations are inherently bureaucratic and inefficient and therefore stifles rather than promotes growth. (A credit research paper adapted from the University of Nottingham, Centre for Research in Economic Development and International Trade (CREDIT), Nottingham)
- i) Briefly distinguish fiscal policy from monetary policy in a developing market economy. (4 marks)
- ii) Examine four emerging issues in financial markets and institutions. (8 marks)
- b) Commercial banks offer both primary and secondary functions. The secondary functions are further classified into utility and agency functions. Explain five agency functions of commercial banks in Kenya. (10 marks)
- c) Define the meaning of the following terms as used in financial markets and institutions
- i) Nonbank financial institutions
- ii) Money multiplier
- iii) Basel III (or the Third Basel Accord)
- iv) Currency Futures (8 marks)

QUESTION TWO (20 MARKS)

- a) The role of financial market institutions is continuously gaining prominence in stimulating aggregate demand, increased consumption and promote economic growth. Briefly discuss the role of a financial system in the economy. (10 marks)
- b) Monetary policies can take the expansionary option or the contractionary aspect for any economy. Differentiate the two policy tools at a macro level of an economy. (10 marks)

QUESTION THREE (20 MARKS)

- a) Employing a significant portion of the Kenyan economy, the insurance industry in Kenya is regulated by the Insurance Regulatory Authority. The Insurance Regulatory Authority was established in 2007, formerly Department of Insurance, is a state corporation with a mandate to regulate, supervise and develop the insurance industry in Kenya. In this light, briefly discuss **SIX** core functions of Insurance Regulatory Authority. (12 marks)
- b) Differentiate between the following;
- i) Capital markets and Money markets
 - ii) Direct quote and indirect quote (8 marks)

QUESTION FOUR (20 MARKS)

- a) Small and medium sized companies are usually limited in their sources of finance to their domestic markets. Larger companies are able to seek funds in international financial markets. International banks, most of which are large multinational enterprises are the most common financial intermediaries in the international financial markets. These banks assist multinational enterprises in various ways. Discuss FIVE ways international banks assist multinational enterprises in their day-to-day activities. (8 marks)
- b) Given that the direct quote between the \$ and £ is $\text{£}1 = \$ 1.5$ and that the inflation rate in UK is 10% and the inflation rate in the US is 6%
Required;
Compute the % change in the direct quote and determine the new exchange rate. (12 marks)

QUESTION FIVE (20 MARKS)

- a) The financial markets continue facing new challenges including emerging risks that continuously impact on their market share, profitability and gross earnings. This has necessitated them to embark on new technological approaches to sustain and spur their growth forward. Discuss **three** various financial technology and financial innovations within the banking industry witnessed in the Kenyan banking industry. (6 marks)
- b) A unit trust is a collective investment scheme in which investors' contributions are pooled together to purchase a portfolio of financial securities, such as equities (shares), bonds, cash, bank deposits etc., managed by professional fund managers. Briefly examine seven features. (14 marks)