PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER- DECEMBER 2021

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CFN 301

COURSE TITLE: FINANCIAL INSTITUTIONS AND MARKETS

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **SIX (6)** questions.
- Answer question **ONE** and ANY other **THREE** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One (compulsory) **(10 marks)**

a. Define term structure of interest rates. (1 marks)

b. Discuss **three** reasons why interest rates fluctuate. Use relevant examples to explain your answer. (3 marks)

c. Explain **three** term structure theories. (6 marks)

Question Two **(10 marks)**

A customer has approached a commercial bank seeking to invest funds for a period of six months. The customer is considering lodging the funds in a term deposit or, alternatively, purchasing a negotiable certificate of deposit.

a. Explain each of these investment products to the customer
   i. Term deposits
   ii. Certificate of deposit (4 marks)

b. Using **three** examples explain why the Certificate of Deposit might be a more appropriate investment choice. (6 marks)

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Question Three **(10 marks)**

a. "Small financial systems in developing economies IMPACT their economies negatively." Discuss this statement giving suitable examples to support your arguments (5 marks)

b. There are **two** performance evaluation techniques used by commercial banks. These techniques are used by regulators such as central bank of Kenya as early warning system. Using suitable examples, discuss these evaluation techniques. (5marks)

Question Four **(10 marks)**

The Capital Markets authority banned three stock brokers for insider trading in the recent past. Further, the three were disqualified from holding office in listed companies.

a. Explain the term insider trading, giving an example. (2 marks)

b. Using suitable examples, discuss the role of the capital markets authority in:
   i. protecting investors' interest (4 marks)
   ii. ensuring fairness in investment practices (4 marks

Question Five **(10 marks)**

a. Using suitable examples to support your answer, discuss how fiscal policy helps to control the following:

   i) Inflation (3 marks)

   ii) Depression (3 marks)

b. Monetary policy instruments used by the Central Bank of Kenya are necessary to control inflation and deflation in the country. Explain **two** of these policies stating how they help in controlling inflation/deflation (4 marks)

Question Six **(10 marks)**

Discuss **five** effects of government restrictions on international payments. Give suitable examples to support your answers.