



# **SOUTH EASTERN KENYA UNIVERSITY**

## **UNIVERSITY EXAMINATIONS 2016/2017**

### **FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR SCIENCE IN ECONOMICS AND STATISTICS**

#### **XEA 308: FINANCIAL MARKETS AND INSTITUTIONS**

**DATE: 9<sup>TH</sup> DECEMBER, 2016**

**TIME: 4.00-6.00PM**

#### **Instructions to Candidates**

Answer Question **One** and any other **TWO** Questions

#### **QUESTION ONE (30 MARKS)**

- a. Briefly distinguish between the following categories of financial markets:
- i. Money and capital markets (4 marks)
  - ii. Primary and secondary markets (4 marks)
  - iii. Debt and equity markets (4 marks)
- b. Why are financial markets essential for a healthy economy and economic growth (6 marks)
- c. Explain three types of financial institutions (6 marks)
- d. Why are financial markets most regulated? Explain (6 marks)

#### **QUESTION TWO (20 MARKS)**

- a) What are financial intermediaries? (4 marks)
- b) Briefly distinguish between the three classes of financial intermediaries (6 marks)
- c) State and explain functions of financial intermediaries (10 marks)

**QUESTION THREE (20 MARKS)**

State and explain functions of financial markets in an economy (20 marks)

**QUESTION FOUR (20 MARKS)**

Describe the different ways in which capital can be transferred from suppliers of capital to those who are demanding capital (20 marks)

**QUESTION FIVE (20 MARKS)**

- a. Is an initial public offering an example of a primary or a secondary market transaction? Explain (8 marks)
  
- b. Explain and indicate whether the following instruments are examples of money market or capital market transactions.
  - i. Treasury bills (3 marks)
  - ii. Long-term corporate bonds (3 marks)
  - iii. Common stocks (3 marks)
  - iv. Dealer commercial paper (3 marks)