LAIKIPIA UNIVERSITY

UNIVERSITY EXAMINATIONS

FIRST SEMESTER 2025/2026 ACADEMIC YEAR

THIRD YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BCOM 313: FINANCIAL INSTITUTIONS AND MARKETS

STREAM: ***TIME: 2 HRS***

DAY: THURSDAY [2.30 P.M-4.30 P.M] ***DATE: 05/02/2026***

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.

INSTRUCTIONS:

(i) Attempt Question ONE and any other TWO question
(ii) Do not write anything on your question paper.
(iii) Use very recent and relevant examples in arguing out your ideas

QUESTION ONE

(a). With reference to the Kenyan economy, explain the importance of Central Bank in the financial industry. **(15 Marks)**

(b) One of the securities traded in the Kenyan money markets are Certificate of Deposits (CDs). Assume that Nyagothie invested in a CD worth Ksh.2 million with 11 percent rate of return and a maturity of 182 days:

(i) Determine the amount of payoff the investor would receive upon maturity. **(2 marks)**

(ii) Suppose Nyagothie later sold the CD to Jekonia 90 days remaining to maturity and assume that on that day similar CDs with same risk and are delivering 9.3 percent return, determine the price that Jekonia will pay for the investment. **(2 marks)**

(ii) Show proof that Jekonia will indeed earn a return of 9.3 percent. **(3 marks)**

(c) The government is a major participant in the Kenyan money markets. Assume that Kibet wishes to invest in a 91-day Treasury Bill issued by the Government of Kenya. The bill has a quoted discount of 12.7 percent and a face value of sh.1,000.

Required:
(i) Compute the price at which the Kibet would pay for the investment. (**2 marks)**

(ii) Determine the compound annualized rate of return he would earn. **(3 marks)**

(iv)Calculate the rate of simple annualized return he will earn from this investment.

(3 marks)

QUESTION TWO

(a) Discuss the advantages of consolidated financial sector regulation in an economy **(10 marks)**

(b) Discuss how the government currently regulates financial markets in Kenya and identify some of the regulatory gaps which exists. (**10 marks)**

QUESTION THREE

a) Discuss the measures undertaken by commercial banks in Kenya to enhance financial inclusion. **(10 Marks)**

b) Discuss the importance and potential problems of the financial innovations in the financial markets. **(10 marks)**

QUESTION FOUR

a) Using appropriate illustrations and relevant examples, explain how funds and securities flow through the Kenyan financial system. **(10marks)**

b) Discuss the important function performed by Nairobi Securities Exchange in the development of the Kenyan economy. (**10 marks)**

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