



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

AUGUST - DECEMBER 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

O DEL PROGRAMME

CFI 321: FINANCIAL INSTITUTIONS AND MARKETS

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Date: DECEMBER 2016

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Briefly discuss the Term structure theories of interest rates. **(10 marks)**
- b) Outline and briefly discuss types of risks incurred by most financial institutions. **(10 marks)**
- c) A Treasury bond has a coupon rate of 10%, a face value of \$3000 and matures 10 years from today. For a treasury bond the interest on the bond is paid in quarterly installments. The current riskless interest rate is 12% (compounded quarterly).
- i) Suppose you purchase the Treasury bond described above and immediately thereafter the riskless interest rate falls to 8%. (compounded quarterly). What would be the new market price of the bond? **(5 marks)**
- ii) What is your best estimate of what the price would be if the riskless interest rate was 9% (compounded quarterly)? **(5 marks)**
- Q2. Write short notes on the following:
- a) OTC (Over the counter market) **(5 Marks)**
- b) Secondary market instruments **(5 Marks)**
- c) Insurance companies **(5 Marks)**
- d) Equity financing **(5 Marks)**

- Q3. a) Discuss the factors that cause the supply and curves for loanable funds to shift.
(Include graphs to enhance quality of your work) **(10 marks)**
- b) State and Explain FOUR types of bonds **(10 marks)**
- Q4. a) Explain why investment banking is important **(10 marks)**
- b) Clearly discuss the possible causes of Bank failure?. **(10 marks)**

END