



CIFA PART I SECTION 2

FINANCIAL INSTITUTIONS AND MARKETS

THURSDAY: 28 November 2019.

Time Allowed: 3 hours.

Answer any FIVE questions. ALL questions carry equal marks. Show ALL your workings.

**QUESTION ONE**

- (a) The primary mandate of the Unclaimed Financial Assets Authority (UFAA) is to receive unclaimed financial assets from the holders of such assets, safeguard and re-unite the assets with their rightful owners.
- With reference to the above statement, highlight four examples of unclaimed financial assets. (4 marks)
- (b) Explain the following terms with reference to financial market regulations:
- (i) Financial liberalisation. (2 marks)
  - (ii) Financial stratification. (2 marks)
  - (iii) Financial rationalisation. (2 marks)
- (c) (i) Analyse three functions of a foreign exchange market. (6 marks)
- (ii) List four participants of the foreign exchange market in your country. (4 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Analyse four categories of financial markets. (8 marks)
- (b) (i) Explain the term “customer-based brand equity”. (2 marks)
- (ii) Outline three key ingredients of customer-based brand equity. (3 marks)
- (c) The current price per share is Sh.25. An investor has Sh.10,000 to invest. The investor can borrow an additional Sh.10,000 from the broker and invest Sh.20,000 in the stock.
- The maintenance margin is 30%.
- Required:**
- Determine the price at which a margin call first occurs. (2 marks)
- (d) (i) Explain the term “investment company”. (1 mark)
- (ii) Describe four functions performed by investment companies on behalf of investors. (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Explain four tools that are used to solve the adverse selection problem in the financial markets. (8 marks)
- (b) Describe six constraints that are faced by small and medium-sized enterprises (SMEs) in obtaining finance. (6 marks)
- (c) Explain three responsibilities of a portfolio manager. (6 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Differentiate between “hybrid securities” and “derivative securities”. (4 marks)
- (b) Highlight two types of bond market indices. (2 marks)
- (c) An analyst has gathered the following data:

	As of 1 January 2018		As of 31 December 2018	
	Share price (Sh.)	Number of shares outstanding	Share price (Sh.)	Number of shares outstanding
Stock K	22	1,500	28	1,500
Stock L	40	10,000	50	10,000
Stock M	34	3,000	30	3,000

#### Required:

Calculate the following returns for the above three stocks:

- (i) 1 year return on a price weighted index. (2 marks)
- (ii) 1 year return on an equal-weighted index. (2 marks)
- (iii) 1 year return on a market capitalisation weighted index. (2 marks)
- (d) Discuss four money market instruments. (8 marks)

(Total: 20 marks)

#### QUESTION FIVE

- (a) In relation to foreign exchange markets, explain the following terms:
- (i) Roll over interest. (2 marks)
- (ii) Leverage. (2 marks)
- (iii) Technical analysis. (2 marks)
- (iv) Bid-ask spread. (2 marks)
- (v) Over the counter market. (2 marks)
- (b) List four functions of a stock broker. (4 marks)
- (c) Highlight three disadvantages to shareholders of private placement of shares. (3 marks)
- (d) Enumerate three roles of ethics in financial markets. (3 marks)

(Total: 20 marks)

#### QUESTION SIX

- (a) Argue two cases in favour of offshore banking and two cases against offshore banking. (8 marks)
- (b) Distinguish between the following terms as used in securities markets:
- (i) “Long position” and “short position”. (2 marks)
- (ii) “Spot rates” and “forward rates”. (2 marks)
- (c) Describe two participants in the forward market. (4 marks)
- (d) Outline two types of alternative investment indices. (4 marks)

(Total: 20 marks)

#### QUESTION SEVEN

- (a) Discuss three classifications of mutual funds. (6 marks)
- (b) Explain four factors that could trigger a financial crisis in your country. (8 marks)
- (c) Describe three common types of orders that are used to buy and sell stocks. (6 marks)

(Total: 20 marks)