



**kasneb**

**CIFA PART I SECTION 2**

**FINANCIAL INSTITUTIONS AND MARKETS**

**WEDNESDAY: 25 November 2020.**

**Time Allowed: 3 hours.**

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

**QUESTION ONE**

(a) Distinguish between the following financial markets terms:

- (i) “Automated trading system” and “central depository system”. (4 marks)
- (ii) “Sell-side analyst” and “buy-side analyst”. (4 marks)
- (iii) “Hedger” and “speculator”. (4 marks)

(b) Financial assets have various characteristics that influence investors to invest in them.

Examine four characteristics that could influence an investor’s choice of financial asset to invest in. (8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

(a) Explain two challenges that could be faced by financial analysts when constructing fixed income indices. (4 marks)

(b) Analyse six benefits of mobile banking to consumers. (6 marks)

(c) Evaluate four methods that might be used by investors to invest in foreign stocks. (8 marks)

(d) Kwetu Ltd.’s share is priced at Sh.40 and pays an annual dividend of Sh.1 per share. An investor purchases the share on margin paying Sh.20 per share and borrowing the remainder from the brokerage firm at 10% annual interest. After one year, the share is sold at a price of Sh.60 per share.

**Required:**

Calculate the return on the company’s share.

(2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

(a) QS Ltd. has decided to undertake an initial public offer (IPO). QS Ltd. has appointed Tama Ltd. as its lead underwriter.

**Required:**

(i) Analyse three roles of Tama Ltd. in the initial public offer (IPO) of QS Ltd. (6 marks)

(ii) Describe six benefits that might accrue to QS Ltd. from raising funds through the IPO. (6 marks)

(b) Evaluate four risks that could be associated with trading derivative contracts. (8 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) In relation to the mortgage market, describe three criteria used to measure a borrower’s creditworthiness. (6 marks)

(b) Outline four benefits that could accrue to an investor from the use of online trading of securities. (4 marks)

(c) Jane Mzalendo opened a margin account at the Hisa Securities Exchange. She deposited Sh.200,000 into the account. The prevailing margin requirement is 30%. The shares of BMZ Ltd. are trading at Sh.45 per share on the Securities Exchange. No commission is charged on any transaction.

**Required:**

- (i) The number of BMZ Ltd.'s shares that Jane Mzalendo could purchase using the maximum allowable margin. (2 marks)
- (ii) The profit or loss that Jane might make if the share price of BMZ Ltd. rose to Sh.60 per share. (2 marks)
- (iii) The profit or loss that Jane might make if the share price of BMZ Ltd. fell to Sh.35 per share. (2 marks)
- (iv) If the maintenance margin dropped to 20%, determine the price that BMZ Ltd.'s shares should fall to ensure that Jane receives a margin call. (4 marks)

**(Total: 20 marks)****QUESTION FIVE**

- (a) Explain three reasons why regulatory agencies are involved in regulation of advertisements on financial products and services. (6 marks)
- (b) Discuss five features of Islamic banking and finance. (10 marks)
- (c) A share index is composed of the following shares:

Share	Number of shares (millions)	Market price per share (MPS) as at 1 January		
		2018 Sh.	2019 Sh.	2020 Sh.
Alpha	300	120	150	120
Beta	1500	40	50	80
Gama	600	80	70	70

**Required:**

The total return on the share index over the two year period using:

- (i) A value weighted index. (2 marks)
- (ii) A price weighted index. (2 marks)

**(Total: 20 marks)****QUESTION SIX**

- (a) Explain four reasons that could have caused slow development of financial markets in some countries. (4 marks)
- (b) Distinguish between the following financial markets terms:
- (i) "Bitcoin" and "blockchain". (4 marks)
- (ii) "Bank runs" and "bank panics". (4 marks)
- (iii) "Money market securities" and "capital market securities". (4 marks)
- (c) Examine four reasons that could cause price of a bond quoted in the Securities Exchange to fluctuate. (4 marks)

**(Total: 20 marks)****QUESTION SEVEN**

- (a) Assess two challenges that might be faced by the Unclaimed Financial Assets Authority (UFAA) in carrying out their duties. (4 marks)
- (b) Describe five challenges that informal finance groups face. (5 marks)
- (c) Explain five roles of financial depository institutions in your country. (5 marks)
- (d) Discuss three types of anomalies in the financial markets. (6 marks)

**(Total: 20 marks)**