



CIFA PART I SECTION 2

FINANCIAL INSTITUTIONS AND MARKETS

WEDNESDAY: 28 November 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Distinguish between “bank runs” and “bank panics”. (2 marks)
- (b) Highlight two causes of:
- (i) Bank runs. (2 marks)
- (ii) Bank panics. (2 marks)
- (c) In financial markets, moral hazard refers to a situation in which one party gets involved in a risky event having the knowledge that it is protected against the risk and the other party will incur the cost.
- In relation to the above statement, outline two causes of moral hazard based on each of the following perspectives:
- (i) Market perspective. (2 marks)
- (ii) Company perspective. (2 marks)
- (d) Examine ten benefits of syndicated loans to commercial banks. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) In relation to marketing of financial services:
- (i) Summarise nine benefits of adopting the e-banking system. (9 marks)
- (ii) Explain five challenges encountered in marketing of financial services. (5 marks)
- (b) With reference to market efficiency, discuss three implications of the efficient market hypothesis. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the term “informal finance” as used in financial institutions and markets. (1 mark)
- (b) Differentiate between “margin purchases” and “short selling”. (2 marks)
- (c) Describe four characteristics of securities traded in equity markets. (8 marks)
- (d) An investor opened a margin account at Faida Financial Securities Limited. The investor began trading in securities by purchasing 400 shares of XYZ Ltd. on margin at Sh.80 per share. In order to complete this purchase, the investor borrowed Sh.6,000 from the broker.
- Required:**
- (i) The actual margin in the investor’s account at the time of the purchase. (3 marks)
- (ii) The actual margin in the investor’s account if the share price increases to Sh.120 per share. (2 marks)
- (iii) The actual margin in the investor’s account if the share price decreases to Sh.70 per share. (2 marks)
- (iv) Using the results obtained in (d) (i) above and a maintenance margin of 50%, determine the share price required for the investor to receive a margin call. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain the difference between a “financial intermediary” and an “investment banking house”. (2 marks)
- (b) Analyse six factors that might have hampered the enhancement of financial deepening in your country. (6 marks)
- (c) Discuss six differences between “private equity funds” and “quoted equity funds”. (12 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Enumerate three uses of financial instruments in your country. (3 marks)
- (b) Describe four roles played by derivatives in the operations of the spot market. (8 marks)
- (c) Examine nine functions of the Unclaimed Financial Assets Authority. (9 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) Highlight five advantages of convertible preference shares. (5 marks)
- (b) Describe five market anomalies associated with the efficient market hypothesis. (5 marks)
- (c) A financial analyst gathered the following information relating to three shares, A, B and C:

| Share | Share price (Sh.) | | Number of outstanding shares | |
|-------|-------------------|-------------|------------------------------|-------------|
| | 31 December | 31 December | 31 December | 31 December |
| | 2016 | 2017 | 2016 | 2017 |
| A | 30 | 25 | 1,000,000 | 1,000,000 |
| B | 25 | 30 | 8,000,000 | 8,000,000 |
| C | 20 | 20 | 5,000,000 | 5,000,000 |

Required:

- (i) Price weighted average as at 31 December 2016. (1 mark)
- (ii) Value weighted average as at 31 December 2016. (3 marks)
- (iii) Geometric average as at 31 December 2016. (1 mark)
- (iv) Value weighted average as at 31 December 2017. (3 marks)
- (v) Geometric average as at 31 December 2017. (1 mark)
- (vi) Using the results obtained in (c) (ii) to (c) (v) above, explain why the values of the weighted average and the geometric average are different. (1 mark)

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

- (a) (i) Explain the term “money laundering”. (2 marks)
- (ii) Summarise five forms of money laundering activities. (5 marks)
- (iii) Suggest five measures that could be adopted to combat money laundering. (5 marks)
- (b) Discuss eight roles that the Institute of Certified Investment and Financial Analysts (ICIFA) plays in the regulation of financial markets in your country. (8 marks)
- (Total: 20 marks)**
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