



CIFA PART I SECTION 2

FINANCIAL INSTITUTIONS AND MARKETS

WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

(a) In the context of financial markets, explain the following terms:

- (i) Hedge funds. (2 marks)
- (ii) Financial liberalisation. (2 marks)
- (b) (i) Define the term “financial system”. (2 marks)
- (ii) Describe four purposes of financial systems. (4 marks)
- (c) (i) Summarise five uses of security market indices. (5 marks)

(ii) The following information relates to market price per share (MPS) and the number of outstanding shares for three companies for the financial years ended 31 December 2015 and 31 December 2016:

Company	MPS (Sh.)		Number of outstanding shares (millions)	
	31 December 2015	31 December 2016	31 December 2015	31 December 2016
Ishiara Ltd.	10	15	100	100
Ciakago Ltd.	20	15	150	150
Tunyai Ltd.	30	18	200	400

Tunyai Ltd. shares had a split of 2:1 within the year ended 31 December 2016.

Required:

The unweighted value index if the value of the index was 1,000 on 31 December 2015. (5 marks)
(Total: 20 marks)

QUESTION TWO

- (a) Discuss four functions of investment banks. (8 marks)
- (b) Assess three roles played by a portfolio manager in an efficient market. (6 marks)
- (c) Mobile payments as a financial transaction medium emerged around a decade ago. Adoption was slow due to the nature of the mobile technology supporting the concept. However, recent significant advances in technology have increased the growth of mobile payments in the financial services sector.

Required:

In the context of the above statement, evaluate six benefits of mobile payments from both business and consumer perspectives. (6 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Examine six attributes of informal finance. (6 marks)
- (b) Describe three challenges that might be faced by the mortgage industry in your country. (6 marks)
- (c) Classify four types of traders based on their motivation to trade. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) In relation to marketing of financial services:
- (i) Explain five needs of a financial service consumer. (5 marks)
- (ii) Outline three measures of effective market segmentation. (3 marks)
- (iii) Highlight four bases for market segmentation. (4 marks)
- (b) The weighting decision determines how much of each security to include in the index and has a substantial impact on an index's value.
- In relation to the above statement, evaluate the following weighting methods:
- (i) Price weighting. (2 marks)
- (ii) Equal weighting. (2 marks)
- (iii) Market-capitalisation weighting. (2 marks)
- (iv) Fundamental weighting. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Outline five objectives of financial markets regulation. (5 marks)
- (b) Discuss two types of each of the following forms of market pricing anomalies:
- (i) Time-series anomalies. (4 marks)
- (ii) Cross-sectional anomalies. (4 marks)
- (c) Anthony Maina, an investor, purchased 500 shares of Mkomani Ltd. at Sh.32 per share. The shares were purchased at a margin of 75%. One month later, Maina had to pay interest on the amount borrowed at a rate of 2% per month. At that time, Maina received a dividend of Sh.0.50 per share. Immediately after that, he sold the shares at Sh.28 per share. He paid a commission of Sh.10 on the purchase of the shares and Sh.10 on the sale of the shares.
- Required:**
The rate of return on Anthony Maina's investment for the one month period. (7 marks)
- (Total: 20 marks)**

QUESTION SIX

- (a) Discuss three features of exchange-traded futures markets. (6 marks)
- (b) Describe four benefits that attract investors to mutual funds. (8 marks)
- (c) Consider an order-driven system that allows hidden orders. The following four sell orders on Oldonyiro Ltd. shares are currently in the automated trading system's (ATS's) limit order section.

Order	Time the order was placed	Limit price of the order (Sh.)	Special Instructions (if any)
I	9:52:01 am	20.33	
II	9:52:08 am	20.29	Hidden order
III	9:53.04 am	20.29	
IV	9:53.49 am	20.29	

- Required:**
Based on the order precedence hierarchy, illustrate the precedence in which the four orders were executed. (6 marks)
- (Total: 20 marks)**

QUESTION SEVEN

- (a) Describe four types of life assurance products. (4 marks)
 - (b) Discuss four participants in the money markets. (8 marks)
 - (c) Summarise four factors that would motivate a non-listed company to go public. (4 marks)
 - (d) Highlight four consequences of failure to comply with regulations and corporate policies and procedures. (4 marks)
- (Total: 20 marks)**

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