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UNIVERSITY EXAMINATIONS 2024/2025

FIRST YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF MASTERS OF
SCIENCE IN FINANCE

BFS 5102: FINANCIAL MARKTES AND INTERMEDIATION

DATE: DECEMBER 2024

TIME: 3 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (24 MARKS)

The Nairobi Securities Exchange (NSE), as part of its modernization and innovation strategy, recently introduced a highly advanced automated trading system, marking a pivotal moment in its evolution as a key financial institution in East Africa. The goal of the system is to enhance liquidity, increase transparency, and improves overall market efficiency by integrating cuttingedge technologies like algorithmic trading, real-time order matching, and high-frequency trading capabilities.

This development comes in the context of increasing competition from regional exchanges and rising demand for a more dynamic and transparent trading environment by both institutional and retail investors. Following the launch, the NSE reported a 30% increase in the volume of trades and a 40% reduction in the time taken for settlement. Furthermore, the system has facilitated cross-border trading and improved access for international investors, which is expected to enhance the market's attractiveness as a regional financial hub.

However, there are concerns about the potential for increased volatility due to high-frequency trading, the readiness of local brokers and traders to fully utilize the system, and the possible need for stronger regulatory oversight to address risks related to technological disruption.



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Despite these challenges, the NSE expects the new system to position it competitively in the global financial markets.

- a) Discuss the importance of an efficient trading system in capital markets, referencing the impact of NSE's new automated trading system. (8 marks)
- b) Explain the role of financial intermediaries in ensuring market liquidity and the smooth functioning of trading systems. (8 marks)
- c) Compare the impact of technological advancements on trading mechanisms in organized exchanges and over-the-counter (OTC) markets. (8 marks)

QUESTION TWO (12 MARKS)

- a) You have been appointed as a Chief financial officer in your company. You are required to give a seminar on primary and secondary markets. In your presentation define, highlighting their differences and their functions in relationship to the financial system. (6 marks)
- b) Discuss the significance of organized exchanges and how they ensure transparency in financial markets. (6 marks)

QUESTION THREE (12 MARKS)

- a) Discuss the functions of the Central Securities Depositories (CSDs) in clearing and settlement systems. (4 marks)
- b) Explain the risk management measures employed in clearing systems using Euroclear or Clear stream as an example (4 marks)
- c) Describe how the settlement process impacts market efficiency and investor confidence. (4 marks)

QUESTION FOUR (12 MARKS)

- a) Explain the role of capital markets in economic development, using Kenya's Capital Markets Authority (CMA) as a reference. (6 marks)
- b) Discuss the significance of securities markets and their contribution to economic growth. (6 marks)



QUESTION FIVE(20MARKS)

- a) Discuss the role of the International Monetary Fund (IMF) in stabilizing global financial markets. (6 marks)
- b) Analyze how financial globalization has impacted capital flow and financial intermediation in developing economies. (6 marks)

