**Attempt Question ONE and choose THREE other questions**

**QUESTION ONE**

*If anyone can find such a thing as an “unregulated industry,” he can sell it at a profit to the Smithsonian (Quote by George Champion).*

With reference to the financial sector regulation in Kenya,

1. Briefly outline and explain **FOUR PRINCIPLES** of financial sector regulation. (8 mks).
2. State and discuss **FOUR** examples of regulations implemented by the Government of Kenya to regulate the financial sector (4 mks).
3. Give a **CRITIQUE** of the consolidated financial sector regulatory framework (as found in the U.K.) (12 mks)
4. Discuss the extent and role of self-regulation in the development of financial markets in Kenya today. (6 mks)

**QUESTION TWO**

Although real assets comprise the true productive capacity of an economy, it is hard to conceive of a modern economy without well-developed financial markets and security types. How would the productive capacity of the Kenyan economy be affected if there were no markets in which one could trade financial assets? (20 mks)

**QUESTION THREE**

a. Discuss the following terms as used in the foreign exchange markets.

* + 1. Free float exchange rate system(4 mks)
    2. Managed float exchange rate system (4 mks)
    3. Pegged float exchange rate system (4 mks)
    4. Fixed exchange rate system (4 mks)
  1. The interest rate in Kenya currently stands at 8%, while the rate in Ethiopia is 12%. If the current exchange rate is 0.1 Birr to a Kenyan shilling, compute the forward rate between the shilling and the Birr (4 mks).

**QUESTION FOUR**

Discuss the following terms as used in securities markets, **CITING RELEVANT EXAMPLES** from Kenya and elsewhere in the world.

* 1. Over the counter Market (OTC) (5 mks)
  2. Shelf registration ( 4 mks)
  3. Red Herring (5 mks)
  4. Initial public offer (4 mks)
  5. Insider trading (5 mks)
  6. Limit orders (5 mks)

**QUESTION FIVE**

*a.* Briefly explain the concept of the efficient market hypothesis (EMH) and each of its three forms**—**weak, semi strong, and strong**—**and briefly discuss the degree to which existing empirical evidence supports the EMH. (14 mks)

*b.* Briefly discuss the implications of the efficient market hypothesis for investment policy as it applies to:

i. Technical analysis in the form of charting (3 mks).

ii. Fundamental analysis (3 mks).

**QUESTION SIX**

In addition to common stock investments, it is also possible to invest in derivative securities, which are securities that have a claim on the common stock of a firm’. In light of the above, discuss the following.

* 1. Call options (5 mks)
  2. Put Options (5 mks)
  3. Warrants (5 mks)
  4. Futures (5 mks)