**REVIEW QUESTIONS**

**NB: These questions are illustrative only. In no way should they be construed as a reflection of the end of semester examination. Do not merely review these questions – they are no substitute for reading class notes and texts.**

1. Calculate the value of a Ksh. 100 zero coupon bond with 10 years to maturity if the YTM is 12%.
2. Consider a bond with a 7% annual coupon and a face value of Ksh. 100. Complete the following table.

|  |  |  |
| --- | --- | --- |
| Years to Maturity | Yield to Maturity | Current price |
| 3 | 5 |  |
| 6 | 7 |  |
| 9 | 9 |  |

1. Compute the value of an ordinary share for a company that just paid a dividend of Ksh. 0.50 per share expected to grow at 10% per annum, given you have a required return of i0 12%, ii) 7%.
2. What characteristics define money markets?
3. Why do banks not eliminate the need for money markets?
4. Which of the money market securities is the most liquid and considered the most risk-free? Why?
5. Distinguish between competitive bidding and non-competitive bidding for treasury securities.
6. Why are banker’s acceptances popular for international transactions?
7. What would be your annualized yield on the purchase of a 182 day treasury bill for Ksh. 98.50 that pays Ksh, 100 at maturity?
8. The six month forward rate (F) between the British pound and the US Dollar is $1.75 per pound. If six month rates in the US are 3% and 1.5% points higher in England, what is the current exchange rate?
9. Discuss the factors that influence exchange rates in the short run and in the long run.
10. How can economies of scale help explain the existence of financial intermediaries?
11. Rich individuals often worry that people will seek to marry them only for their money. Is this a problem of adverse selection?
12. Do you think the lemons problem would be more severe for stocks traded at the NSE or for those traded OTC? Explain your answer.
13. If a bank is falling short of meeting its capital requirements of Ksh. 1B, what four things can be done to rectify this situation?
14. Discuss in brief the ways that a bank manager can ensure that the institution minimizes i) liquidity risk ii) credit risk.
15. What are the benefits for a bank when it increases the amount of capital?
16. Why does imposing bank capital requirements help limit risk taking?
17. How do disclosure requirements help limit excessive risk taking by banks?
18. Discuss the principles of financial sector regulation.
19. How is the financial sector regulation in Kenya organized? Discuss.
20. Are there any benefits derived from securitization? Discuss.