CFN301: FINANCIAL INSTITUTIONS AND MARKETS
END OF SEMESTER EXAM
AUGUST 2026

INSTRUCTIONS:
Answer **Question One** (compulsory) and **any other THREE** questions

QUESTION ONE (30 MARKS)

a) Explain five functions of a financial system and illustrate how each function contributes to economic growth. **(5 Marks)**

b) Discuss five roles played by commercial banks in the Kenyan financial system. **(5 Marks)**

c) Describe five characteristics of the money market that distinguish it from the capital market. **(5 Marks)**

d) Explain **five roles of the Nairobi Securities Exchange (NSE)** in the mobilization and allocation of long-term capital. **(5 Marks)**

e) Discuss **five factors that determine interest rates** in an economy. **(5 Marks)**

f) Explain **five functions of the Central Bank of Kenya (CBK)** in regulating the financial system and implementing monetary policy. **(5 Marks)**

QUESTION TWO (10 MARKS)

a) Explain **five components of the structure of the financial system** and state the role played by each component. **(5 Marks)**

b) Discuss **five ways in which financial markets contribute to economic development** in a country such as Kenya. **(5 Marks)**

QUESTION THREE (10 MARKS)

a) Distinguish between the **primary market** and the **secondary market** using **five points of comparison**. **(5 Marks)**

b) Explain five differences between equity securities and debt securities as instruments of long-term financing. **(5 Marks)**

QUESTION FOUR (10 MARKS)

a) Discuss five tools of fiscal policy that a government may use to influence economic activity. **(5 Marks)**

b) Explain **five** differences between domestic borrowing and external borrowing as methods of financing public expenditure. **(5 Marks)**

QUESTION FIVE (10 MARKS)

a) Discuss five roles played by international financial institutions such as the International Monetary Fund (IMF) and the World Bank in the global financial system. (5 Marks)

b) Explain five measures used by financial regulators in Kenya to promote investor protection and market integrity. (5 Marks)