BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

INTERNATIONAL BANKING BS239/ BS442

FINAL EXAMINATION

DURATION: THREE HOURS

INSTRUCTIONS TO CANDIDATES

a) Answer **question one** and **any three** questions.

b) Start the answer to each question on a fresh page in the answer sheet provided.

c) All calculations to be presented in good style and all workings should be shown.

d) Questions may be written in any order, but must be numbered accurately and legibly.

QUESTION ONE

American Malls Dilemma

The Cross County Shopping Center was in Yonkers, in the suburbs of New York City. Built in 1954 as one of the first open air shopping malls and renovated in 2011, the Center captured many of the challenges facing American suburban shopping centers in the 21st century. It was large, a "super-regional," with a total size of over a million square feet. The Cross County had had a successful history, but its future, along with that of other U.S. malls, was far from certain.

The American shopping mall had historically been a symbol of suburban consumerism and a one-stop shop for those living within its radius to gather, eat, and shop. Consumerism, suburban growth, and economic prosperity in post-World War II America led to the budding years of malls. However, in many ways, the seeds of the shopping mall's downfall were also planted in its early beginnings. In 1954, Congress, hoping to stimulate investment in manufacturing, allowed for an accelerated depreciation process for new construction projects, effectively tax-free money. Money poured into real estate investments. Investors chose not to improve existing malls but instead began bloating the American landscape with new, huge malls. The bumper crop of shopping malls required stores to fill them, which in turn drove venture capital investment for huge stores and mega retailers.

The first major bust that shook the American mall and retail market happened during the 2008 Global Financial Crisis. In 2007 to 2009 alone, 400 of America's 2000 largest malls were shuttered and sales per square feet in shopping malls across the nation took a nosedive. In 2018, the decline of retail, which is oft referred to as America's "retail apocalypse," continued. In the first three quarters of 2017 alone, chains reported that 6,800 stores closed, with only 3,000 new stores replacing them. Record levels of store closures came in spite of high domestic consumer confidence, historically low unemployment, and positive growth forecasts for the U.S. economy.

Nonetheless, not all was lost. The face of retail and the future of the shopping mall were pushed to change. Retailers attempted to rethink how best to reach their consumers both internal and external, and some malls continued to serve their original purpose. Many dying malls were converted to serve other commercial uses, such as office space, educational centers, churches, and even sports venues.

a) Outline challenges faced by the American mall from 200 to 2009 (7)
b) What are available options for the mall to evade challenges faced in America? (18)

[25 Marks]

QUESTION TWO

a. Consider the following spot forward exchange rates quoted between (ZWD/USD)

Spot	1.7000- 1.7860
One month	13-25

Three months	22-35
Six months	35-38

What are the one, three and six month outright rates? **(10)**

b. With the aid of clear examples, explain possible risks encountered in forward market (10)

c. Distinguish between forward premium and forward discount. (5)

[25 marks]

QUESTION THREE

a. Explain the following terms as they are used in international trade

   i. LIBOR (4)

   ii. Purchasing power parity (4)

   iii. Long and short position (4)

b. Discuss the roles of regulation in international banking. (13)

[25 Marks]

QUESTION FOUR

a) Explain the term 'covered interest arbitrage'. (7)

b) Assume the following information

   Spot rate of South African rand 0.80

   90 day forward rate of South African rand 0.79

   90 day South African interest rate 10%

   90 day Zimbabwean interest rate 5%

   Given the above information, determine the yield to a Zimbabwean investor who used covered interest arbitrage assuming that he has $100 000 000.00 borrowed in Zimbabwe (15)

c) Explain how the forces of arbitrage will eliminate arbitrage opportunities between two countries. (3)

QUESTION FIVE

Using examples, critically evaluate opportunities banks may employ to go international.

[25 marks]

QUESTION SIX

'Consider a hypothetical futures contract in which the current price is \$212. The initial margin requirements is \$10 and the maintenance margin is \$8. You go long 20 contracts and meet all margin calls. But you did not withdraw any excess margin.

a) When could there be a margin call? **(3)**

Assume that the futures prices from day 0 to day 6 are **212, 211, 214, 209, 210, 204, and 202** respectively.

b) Prepare a payoff table and complete **(20)**

c) How much are your gains and losses by the end of day 6? **(2)**

[25 marks]