BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

APR 2025

BANKING AND FINANCE

BS239 INTERNATIONAL BANKING

DURATION: THREE HOURS **TOTAL MARKS: 100**

INSTRUCTIONS TO CANDIDATES

- Answer **question one** and any **other three** questions.
- Start answer to each question on a fresh page in the answer sheet provided.
- All calculations to be presented in good style and all workings should be shown.
- Questions may be written in any order, but must be numbered accurately and legibly.

1. KPM limited, a South African company, is in process of negotiating an order worth US$1.4 million with a large US retailer on six months credit. If it's successful, this will be the first time that KPM has sold goods into the highly competitive US market. KPM is currently considering three alternatives for managing its transactional risk should it be finalised

   The marketing director has suggested that in order to remove transaction risk completely, KPM should invoice the US firm in local currency ZWL using the current spot rate to calculate the invoice amount.

   The CEO has doubts about this proposal and as an alternative has suggested invoicing the US firm in USD and using a forward exchange contract to hedge KPMs transaction risk.

   Finally whilst they finance director agrees that the US firm should be invoiced in the USD, he believes that KPM should use sufficient six months Zimbabwean dollar futures contract (to the nearest whole number) to hedge transaction risk.

   The following data is available

   The current spot rate is Z$1.8960-1.8970/$
   The six months forward premium is currently 1:20-1:15 cents
   It can be assumed that the spot rate and the futures rate price in six months' time will both be 1.8873/$
   Required

   a) Discuss the advantages and disadvantages of each of the three alternatives. (10)

b) Which alternatives would you consider to be the most appropriate in this scenario? (5)

c) Calculate to the nearest $ the $ receipt for KPM limited under each of the alternatives being considered. (5)

d) What other risks that KPM faces by entering into a forward contract? Explain (5)

[25 Marks]

2. a) Discuss the major determinants of interest rates in financial markets and explain how they affect pricing of products by financial institutions? (10)
   b) Explain strategies banks could use to navigate international market. (10)
   c) Identify risks bank face in host countries giving practical examples (5)

[25 Marks]

3. James is an arbitrageur with the bank of England and faces the following British Pound US Dollar quotes

Spot rate	\$1.4393/£
Six months rate	\$1.4637/£
British pound interest rate	8%p.a
Us dollar interest rate	5.5%p.a

a) James is authorised to borrow £20 000 000.00 in United Kingdom. The ending profit, if any, should be realised in the British pound. Assuming James can borrow or invest at the above interest rates, how can he complete a covered interest arbitrage? What will his profit be if any? (10)

b) Explain the reasons bank would prefer foreign direct investment over mergers. (15)

[25 Marks]

4. a) Under separate and clear headings, list and discuss, giving relevant examples, two advantages and two disadvantages for each of the international trade measures.
   i. Free trade (8)
   ii. Protectionism (8)

b. A foreign currency dealer based in Botswana has the following spot rates

1.3850/55 ZAR/BWP

1.7500/10 ZMW/BWP

Calculate the expected ZMW/ZAR in South Africa (5)

c. Discuss factors that are likely to influence company remittance back home (4)

[25 Marks]

5. a) Discuss the implications of regional currency arrangements such as currency unions or common currency areas on economic integration and monetary policy corporation (8)
   b. Discuss the advantages and disadvantages for Zimbabwe joining currency union blocks such as Rand Monetary Union/Common Market Block (8)

c. A currency dealer in Frankfurt has the following spot quotes 51.1530/15.2550 JPY/DEM at the same time, a foreign currency dealer in London has the following spot rates; 3.5251/55 DEM/GBP and 180.80/181.30 JPY/DEM
Using mid rates, demonstrate if there is an arbitrage opportunities and how a trader can take advantage of exchange quotations (9)

[25 Marks]

6. With a clear reference to product cycle theory, explain the steps a local company of your choice has followed in going international. **[25 marks]**