

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

INTERNATIONAL BANKING (BS239)/ (BS442)

FINAL EXAMINATION

DURATION: THREE HOURS

JUN 2023

INSTRUCTIONS TO CANDIDATES

- Answer **question one** and **any three** questions.
- Start the 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.

QUESTION ONE

- a) Using clear examples, critically evaluate the roles played by financial markets? (16)
- b) Distinguish between direct finance and indirect finance using a diagram. (9)
- [25 marks]**

QUESTION TWO

- a) You are given the following quotations:

CHF1=USD0.6454/58

AUD1=USD0.5573/76

USD1=GBP0.6122/26

Calculate the following bid/offer quotations:

- i) AUD against CHF (3)
- ii) AUD against GBP (3)

- b) You are given the following exchange rate between the PL\$ and the DL\$.

Spot rate PL\$0.0247/80

One month rate 4/6

Three month rate 9/8

Six month rate 14/11

- i) Calculate the outright quotes for a one month, three month and six month forward giving your answer as a direct quote of the DL\$. (9)
- ii) What is the margin of the six month outright rate calculated above? (2)
- iii) What is the spread for the three month outright rate? (2)
- iv) Making use of the spot rate calculate the forward spread. (3)
- c) Using a diagram illustrates how financial markets facilitate the movement of funds from surplus units to deficit units. (3)

[25 marks]

QUESTION 3

- a) State and explain three types of exchange rate risk. (10)
- b) With the aid of a diagram, explain the structure of global financial markets. (15)

[25 Marks]

QUESTION FOUR

- a) Eurobanks are considered efficient unlike the domestic banks. With reference to any Eurobank you are familiar with, explain the following:
 - a) The reasons why Eurobanks are efficient (3)
 - b) The unique features that are characteristics of Eurobanks. (10)
- b) Interest determination in the Eurocurrency market is closer to being a free market than the domestic money market. Discuss this statement highlighting on how interest rates are determined in both markets. (3)
- c) Explain strategies available to banks intending to go international? (9)

[25marks]

QUESTION FIVE

- a) Explain the concept of purchasing power parity (5)
- b) Assume the following information

Spot rate of Canadian dollar \$0.80

90 day forward rate of Canadian dollar 0.78

90 day Canadian interest rate 5%

90 day US interest rate 3%

- i) Given the above information determine the yield to a US investor who used covered interest arbitrage assuming that he has \$100000 to invest. (15)
- ii) Explain market force that would eliminate any possibility of covered interest arbitrage. (5)

[25 marks]

QUESTION SIX

Consider a hypothetical futures contract in which the current futures price is \$82. The initial margin requirement is \$5 and maintenance margin requirement is \$2. You go long 20 contracts and meet all margin calls but do not withdraw any excess margin. Also assume that on the first day the contract is established at the settlement price, so there is no mark to market gain or loss on that day

- a) When could there be a margin call? (3)
- b) Complete the table below and explain any funds deposited. Assume that the contract is purchased at the settlement price of that day so that there is no mark –to-market profit or loss on the day of purchase. (20)

Day	Begging balance	Funds deposited	Futures price	Price change	Gain/Loss	Ending balance
0			82			
1			84			
2			78			
3			73			
4			72			
5			82			
6			84			

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

[25 marks]

END OF PAPER