BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ECONOMICS

MASTER OF SCIENCE DEGREE IN ECONOMICS

SPECIALISING IN FINANCIAL ECONOMICS

INTERNATIONAL FINANCE (MEC 526)

DURATION: 3 HOURS

MAR 2024

INSTRUCTIONS TO CANDIDATES

1. **Answer four (4) questions**
2. **The paper carries six questions**
3. **All questions carry equal marks of 25 each**
4. **No cell-phones allowed in the examination room**
5. **Names mentioned in this paper are fictitious**

QUESTION 1

You have been hired as a consultant by the Ministry of Industry and Trade to analyse general and specific risks in international trade.

a) Outline any four major risks that are associated with international trade. (10 marks)

b) Give advice to an importer on the use of Letters of Credit method of payment. (5 marks)

c) Illustrate that the exporter faces various degrees of risk associated with the various payment methods in international trade. (10 marks)

[Total 25 marks]

QUESTION 2

A Malawian trader would like to import 20 000 litres of raw materials from one of two possible sources; one is based in South Africa and the other from Zimbabwe. The following is the relevant information from the two sources:

South Africa:
Price: ZAR 240 per litre

Zimbabwe:
Price: US$30 per litre

The supplier in Zimbabwe can only accept a bank draft while the South African supplier can be paid using a direct credit in his account. The exchange rates are as follows:

ZAR	Buy: 19	Sell: 22
US$	Buy: 160	Sell: 165

The Malawian banks charge K7 000 processing fee for a bank draft and 0.05% commission for every foreign currency transaction.

Required:-

a) Calculate the option that is less costly in monetary terms to the trader. (10 marks)

b) What three other factors should the trader consider apart from the cost in choosing the source of the raw materials? (5 marks)

c) Explain three reasons why an overvalued currency may cause shortage of foreign currency in a country. (10 marks)

[Total 25 marks]

QUESTION 3

a) Discuss five factors that distinguish international financial management from domestic financial management. (10 marks)

b) Examine motives for international trade. (15 marks)

[Total 25 marks]

QUESTION 4

a)

Currency	U.S.Dollar/Foreign	Foreign currency/U.S. Dollar
Japanese yen	0.009	111.1111
Australian dollar	0.650	1.5385

Currently, you can exchange 1 yen for 0.0095 U.S. dollar in the 30-day forward market, and the risk-free rate on 30-day securities is 4% in both Japan and the United States.

i. Determine if there is an opportunity for arbitrage profit. If it is there, calculate the highest possible return. (13 marks)

ii. If grapefruit juice costs $2.00 a liter in the United States and purchasing power parity holds, what should be the price of grapefruit juice in Australia? (4 marks)

b) Explain the economic roles of hedgers and speculators in international trade. (8 marks)

[Total 25 marks]

QUESTION 5

a) Explain the following balance of payment terms:

i. Balance of trade; (4 marks)

ii. balance of invisible transfers; (4 marks)

iii. current account balance; (4 marks)

iv. capital account balance and (4 marks)

v. balance of payments. (4 marks)

b) Explain roles of banks in international trade. (5 marks)

[Total 25 marks]

QUESTION 6

Discuss both local and international institutions which influence international trade and trade finance in Zimbabwe.

(25 marks)

[Total 25 marks]

END OF PAPER