

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BANKING
BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING**

TREASURY MANAGEMENT I - CBA 2108

FINAL EXAMINATION

APRIL 2009

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- The paper contains **SIX (6)** questions.
- Attempt any **FOUR (4)** questions.
- All questions carry equal marks [**25 marks**].
- Start the answer to each question on a fresh page of the answer sheet.
- Indicate on your answer booklet whether you are in the conventional or parallel programme

INFORMATION FOR CANDIDATES

Questions may be written in any order, but must be legibly numbered.

The businesses in this question paper are intended to be fictitious.

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[Turn over]

QUESTION 1

- a) What is cash flow forecasting? What factors should a bank consider when carrying out a cash flow forecast? [4marks]
- b) Z Limited projects that cash outlays of \$4,5 million will occur uniformly through out the year. Z plans to meet its cash requirements by periodically selling marketable securities from the portfolios. The company's marketable securities are invested to earn 12% and the cost per transaction of converting securities to cash is \$27.
- (i) Use Baumol's model to determine the optimal transaction size of transfers from marketable securities to cash. [5 marks]
- (ii) What is Z Limited's average cash balance? [2 marks]
- (iii) How many transfers will be required per year? [2 marks]
- (iv) What will be Z Limited's annual cost for maintaining cash balances be? [4 marks]
- (v) What will the total cost be if the company maintained an average cash balance of \$50 000 or a Nil cash balance? [4 marks]
- c) What are the assumptions of Baumol's model? [4 marks]
- TOTAL [25 MARKS]**

QUESTION 2

- a) The treasury manager in any banking institution plays a significant role. In your opinion what are the key duties of the treasury manager? Give a brief discussion using examples where possible. [10 marks]
- b) What is internal control? What policies and guidelines can the treasury department of an organisation follow in order to have a sound internal environment? [6 marks]
- c) Most commercial banks have clear and distinct departments within the treasury department. What are these departments and what duties do they perform? [9 marks]
- TOTAL [25 MARKS]**

QUESTION 3

- a) Assume that it is 1 January 1999. The rate of inflation is expected to be 5% through out 1999. However increased deficits and renewed vigor in the economy are expected to push inflation higher. Investors' expected inflation rate is 6% in 2000, 7% in 2001 and 8% in 2002. The real rate of return k^* is expected to remain at 2% over the next five years. Assume that no maturity risk premiums are required on bonds with 5 years or less to maturity and the current interest on 5 year treasury bonds is 8%.
- (i) What is the average expected rate of inflation over the next 4 years? [6 marks]
- (ii) What should the prevailing interest rate on 4 year treasury bonds be? [3 marks]
- (iii) What is the implied expected inflation rate in 2003 given that the treasury bills which mature in that year yield 8%? [4 marks]
- b) State and explain the determinants of market Interest rates. [12 marks]
- TOTAL [25 MARKS]**

QUESTION 4

- a) What are over the counter markets? How different are they from organised exchanges? [5 marks]
 - b) Organised exchange markets are normally preferred by both investors and companies seeking finance. Name one organised exchange of your choice and state:
 - (i) The prerequisites of listing on that market [10 marks]
 - (ii) The advantages and disadvantages of listing on the exchange [10 marks]
- TOTAL [25 MARKS]**

QUESTION 5

Write brief notes, giving examples where possible, on any 5 of the following terms.

- (i) Bankers Acceptance [5 marks]
- (ii) Treasury Bill [5 marks]
- (iii) Public Sale or offering [5 marks]
- (iv) Private Placement [5 marks]
- (v) Intermediation process in the primary market [5 marks]
- (vi) Intermediation in the Secondary market [5 marks]
- (vii) Derivative Instruments [5 marks]

TOTAL [25 MARKS]

QUESTION 6

- a) The following yields in US treasury securities were taken from the Wall Street Journal in September 2005.

TERM	RATE%
6 months	5.5
1 year	5.6
2 years	5.8
3 years	5.9
4 years	6.0
5 years	6.0
10 years	6.3
20 years	6.5
30 years	6.4

- (i) Plot a yield curve based on the data [5 marks]
- (ii) What general economic conditions could be expected to produce an upward sloping curve? [3 marks]

- b) Explain the following theories of the term structure of interest rates
- (i) Liquidity preference theory [7marks]
 - (ii) Expectations theory [6marks]
 - (iii) Market segmentation theory [4 marks]
- TOTAL [25 MARKS]**