

**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

FEBRUARY 2010

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- The paper contains **SIX (6)** questions.
- Answer any 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 the financial system? [3 marks]
- (b) As an investment analyst in your bank, you have been tasked to make a presentation on the various money market investment products that the bank has to offer. Write out the presentation stating clearly in each case why it would be beneficial to invest in each product. [22 marks]
- TOTAL [25 MARKS]**

QUESTION 2

- (a) What is Internal Control? [2 Marks]
- (b) Certain controls and division of duties are necessary to ensure effective control over the companies' assets and the smooth running of the day to day operations within these departments. State and explain the controls that a financial institution can make use of in order to have an effective internal control system. [20 Marks]
- (c) State 3 advantages of a decentralized treasury. [3 Marks]
- TOTAL [25 MARKS]**

QUESTION 3

- (a) Which questions does an efficient liquidity management system answer? [2 ½ Marks]
- (b) What are the signs and characteristics of a poor liquidity management system? [2 ½ Marks]
- (c) Cash forecasts are generally made over three time horizons. Explain each of these time horizons. [6 Marks]
- (d) Wonder World Limited faces an interest rate of 0.5% per year and the brokers charge 75 cents for each transaction. The managing director of Wonder World has stated that the minimum cash balance that is acceptable is \$2000 and the variance of the cash flows on a daily basis is \$16000. What is the maximum level

of cash that the firm should hold and at what point should it start to purchase or sell securities? [14 marks]

TOTAL [25 MARKS]

QUESTION 4

(a) State and explain the determinants of market interest rates. [13 marks]

(b) Explain the following theories of the term structure of Interest rates:

(i) Liquidity preference theory [4 marks]

(ii) Market segmentation theory [4 marks]

(iii) Expectations theory [4 marks]

TOTAL [25 MARKS]

QUESTION 5

(a) What are the major differences between a public and private placement? [4 marks]

(b) What are over the counter markets (OTC)? How different are they from organized exchanges? [4 marks]

(c) The Zimbabwe Stock Exchange requires that strict regulations are adhered to in order for a company to be listed on the stock exchange.

What are the prerequisites for listing on the Zimbabwe Stock Exchange? [9 marks]

(i) What are the advantages and disadvantages of listing on the stock exchange? [8 marks]

TOTAL [25 MARKS]

QUESTION 6

a) In the year 2000 the central statistics unit released new figures which showed that inflation was estimated to be running at an annual rate of 15%. The actual rate for 2001 however was 13%, 9% in 2002, 7% in 2003, 6% in 2004 and would remain constant in the following years.

- (i) What is the expected annual inflation rate over the five year period 2001-2005? [7 ½ marks]
- (ii) What nominal interest rate would, over the five year period, be expected to produce a 2% real risk - free rate of return on a 5 year treasury security? [3 marks]
- (iii) Assuming a real risk - free rate of 2% and a maturity risk premium which starts at 0.1% and increases by 0.1% each year, estimate the interest rate in January 2001 on bonds that mature in 1,2,5,10 and 20 years and draw a yield curve based on the data. [12 ½ marks]
- (iv) Describe the general economic conditions that could be expected to produce an upward sloping curve. [2 marks]

TOTAL

[25 MARKS]