

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

**TREASURY MANAGEMENT I
[CBA 2108]**

SUPPLEMENTARY EXAMINATION

AUGUST 2010

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any **FOUR (4)** questions
- 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
- Show all workings
- Questions may be written in any order, but must be legibly numbered.

INFORMATION FOR CANDIDATES

- The paper contains **SIX (6)** questions.
- All questions carry equal marks [**25 marks**].
- The businesses in this question paper are intended to be fictitious.

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Turn over

QUESTION 1

- (a) What is the major difference between money and capital markets? [5 marks]
- (b) As an investment analyst in your bank, you have been tasked to write a report or make a presentation on the various money and capital 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 [20 marks]

TOTAL

[25 MARKS]

QUESTION 2

- (a) What is cash flow forecasting? What factors should a bank consider when conducting cash forecast? [4 marks]
- (b) What reasons may contribute towards a bank encountering cash flow problems? [6 marks]
- (c) 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
- (i) What is the maximum level of cash that the firm should hold and at what point should it start to purchase or sell securities? [15 marks]

TOTAL

[25 MARKS]

QUESTION 3

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

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

[5 marks each]

TOTAL

[25 MARKS]

QUESTION 4

- a) What is liquidity? [2 marks]
- b) State and explain two methods that can be used to measure a bank's liquidity position. In each case, clearly highlight the strengths and weaknesses from the bank's point of view [10 marks]
- c) What assumptions are used when determining cash flows in maturity analysis? [4 marks]
- d) What factors should be used when assessing liquidity in a bank? State and explain any 5 factors that can be considered. [9 marks]

TOTAL

[25 MARKS]

QUESTION 5

- 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 of 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 the 5 year treasury securities? [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]

QUESTION 6

- 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 the organization 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]