NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BANKING

BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING

BANKING AND FOREIGN EXCHANGE **CBA 2202**

SUPPLEMENTARY EXAMINATION **AUGUST 2004**

INSTRUCTIONS TO CANDIDATES

(i) Time : 3 hours.
(ii) Answer **ALL** questions.
(iii) Show all your workings.
(iv) Each question carries 25 marks.
(v) Write legibly

QUESTION 1

(a) What do you understand by the following option terms and international trade documents?

- American Call Option
- European Put Option
- A deep out of the money option
- A confirmed letter of credit
- Sight draft
- Certificate of Analysis
- Export credit insurance

[2.5 marks each]

(b) Illustrate using diagrams the following option strategies:

(i) Writing a covered call **[5 marks]**
(ii) Protective put **[5 marks]**

(c) What are the basic differences between a futures contract and an options contract? **[5 marks]**

QUESTION 2

(a) What is covered interest arbitrage? **[3 marks]**

(b) The spot rate for the Zimbabwean dollar in New York is US$0,250/Z$.

(i) What would be the spot price of the US dollar in Harare. **[2 marks]**

(ii) What would happen if the US dollar was quoted at Z$8.25 in Harare? **[3 marks]**

(c) When the Rand, spot rate was US$0.27 in New York, the United States market was quoting the British Pound Sterling at US$1.60. What should the price of the British Pound Sterling be in Johannesburg? **[6 marks]**

(d) What spot rate will give an equilibrium situation when you are given the following:

- South African 3 month deposit rate 8% p.a.
- Zimbabwean 3 months deposit rate is 10% p.a.
- The 3 months forward exchange rate is SAR/1.78Z$

Show all workings. **[10 marks]**

QUESTION 3

(a) What are the major determinants of the foreign exchange rate of the Zimbabwean dollar? **[15 marks]**

(b) Why is it that the Zimbabwean dollar is likely to weaken during the planting season and likely to strengthen a few months after the harvest season? **[6 marks]**

QUESTION 4

(a) What is the difference between foreign exchange translation exposure and transactions exposure? **[5 marks]**

(b) The British Pound Sterling/Zimbabwean dollar spot exchange rate is GBP1.000:13.5 000. It is expected that the British Pound will appreciate by 20% against the Zimbabwean dollar by end of 90 days.

Your company has got a GBP 45 000, 90 days export credit that has been used to import commercial vehicle spares. This amount of money has to be paid back by the end of 90 days from today.

(i) How much would your company pay if it were to settle its export credit today? **[5 marks]**

QUESTION 4 [CONT….]

(ii) How much would your company pay if it were to wait until the end of the 90 days assuming the company could not find any cover? **[10 marks]**

QUESTION 5

Write short notes on the following:

(a) Foreign exchange controls in the economy **[5 marks]**
(b) Traveller's Cheques **[5 marks]**
(c) Bill of Exchange **[5 marks]**
(d) Leading and Lagging **[5 marks]**
(e) Devaluation **[5 marks]**

END OF EXAMINATION PAPER