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

ADVANCED INTERNATIONAL BANKING - CBA 4205

FINAL EXAMINATION **AUGUST 2009**

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.

This paper consists of 4 printed pages

[Turn over]

QUESTION 1

a. What is Arbitrage? How does it differ from speculation? **[3 marks]**

b. Interest rates in Zimbabwe and south Africa for similar investments are given below:

Zimbabwe	15% per annum
South Africa	20% per annum

Your bank has the following exchange quotations

	Zwd/Zar
Spot	6.5
1-year forward	6.35

Show that an arbitrage opportunity exist and calculate how much covered or risk less profit can be made by using the forward markets given that one has access to a loan of 5 million dollars from the bank. **[12 marks]**

c. Given an economy like Zimbabwe do you think that the concept of the law of one price can be adequately applied **[10 marks]**

TOTAL **[25 MARKS]**

QUESTION 2

a. Distinguish between the purchasing Power Parity theory and the Interest rate parity theory of exchange rates **[10 marks]**

b. Using the PPP theory, estimate the South Africa/Zimbabwe dollar spot exchange rate given the following: South Africa /Zimbabwe 6-month forward exchange rate is ZAR1 = ZWD7.100. Inflation rates in Zimbabwe and South Africa are 25% and 10% respectively and are not expected to change in the near future. State all assumptions you make **[12 marks]**

c. One of the general conclusions made from the tests conducted to examine whether PPP exists is that PPP holds up well over very long run but poorly for shorter time periods'. What are the implications of this conclusion to corporate treasures and portfolio managers? **[3 marks]**

TOTAL **[25 MARKS]**

QUESTION 3

Critically evaluate the need for safety nets such as prudential supervisor and depositor's insurance schemes in a country like Zimbabwe **[25 marks]**

TOTAL **[25 MARKS]**

QUESTION 4

Derivative trading in financial institutions causes financial threats and in severe cases has led to bank failures or closures. What are the types of risks that are faced by financial institutions in derivative trading and how can a bank adequately manage these risks. **[25 marks]**

TOTAL **[25 MARKS]**

QUESTION 5

a. What are the major objectives of bank regulation and supervision? **[5 marks]**

b. The Basel Committee formulates broad supervisory standards and guidelines and recommends statements of best practice in banking supervision. This is done through the BASEL II core principles of banking supervision. Give a detailed discussion of these principles. In your discussion clearly highlight how they can be adequately applied in the Zimbabwean banking system

[20 marks]

TOTAL **[25 MARKS]**

QUESTION 6

a. Clearly distinguish between a currency and Interest rate swap. What would be a banks motivation in holding these instruments **[10 marks]**

b. Companies A and B have been offered the following rates per annum on a 20 million five year loan :

	Fixed Rate	Floating Rate
Company A	12%	LIBOR + 0.1%
Company B	13%	LIBOR + 0.6%

Company A requires a floating rate loan; company B requires a fixed rate loan. Design a swap that will net a bank, acting as an intermediary 0.1 % per annum and appear to be equally attractive to both companies**.** **[10 marks]**

c. How can a financial institution that warehouse interest rate swaps monitor its exposure to interest rate changes. **[5 marks]**

TOTAL **[25 MARKS]**