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

ADVANCED INTERNATIONAL BANKING - CBA 4205

SUPPLEMENTARY 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. In most countries including Zimbabwe, freely floating or fixed exchange rate regimes characterize the exchange rate market. What are the causes and determinants of fluctuations in the exchange rate under the freely floating or flexible exchange rate regime and how can the government adequately manage the system. [15 marks]

b. What are the prerequisites for one to be successful in currency forecasting? [4 marks]

c. State and explain two types of markets forecast that you are familiar with. [6 marks]

TOTAL **[25 MARKS]**

QUESTION 2

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

b. What principles and instruments can the central bank use to adequately supervise or regulate financial institutions? [20 marks]

TOTAL **[25 MARKS]**

QUESTION 3

Evaluate the role of a depositor's insurance scheme in a competitive financial market; in your response clearly show the link between such a scheme and the lender of last resort [25 marks]

TOTAL **[25 MARKS]**

QUESTION 4

Write brief notes on each of the following:

i. Law of one price. [5marks]
ii. Purchasing power parity (PPP) [5 marks]
iii. Interest rate parity theory (IRP) [5 marks]

iv. Fisher effect [5 marks]
v. Index arbitrage [5 marks]

TOTAL [25 MARKS]

QUESTION 5

The deposit Interest rates in Zimbabwe and Zambia for comparable investments are 27% and 36% per year respectively. The spot exchange rate is 6.5000 and the three-month forward rate is 6.3500(both rates are ZWD per Zambian Kwacha)

a. Define what a covered interest arbitrage is and demonstrate using figures that such an opportunity exists given the details above. State the direction of the flow of funds as a result of the opportunity [5 marks]

b. Assuming you had access to a loan of one million of the currency of the country from which funds are to flow, calculate the risk less profit that you could make by taking advantage of the arbitrage opportunity in (a) above [12 marks]

c. What are the assumptions underlying a transaction such as the one in (b) above [4 marks]

d. What is the normal effect of arbitrage transactions in any market [4 marks]

TOTAL [25 MARKS]

QUESTION 6

a. What is an interest rate swap? How does it differ from a currency swap [6marks]

b. Explain a banks motivation in using interest rate swaps [4 marks]

c. Calculate the savings that will accrue to the two companies should they decide to enter into a swap arrangement if faced with the following offers

Company	Fixed Market Rates	Floating Market Rate
ABD Holdings	10%	Libor+0.75
PHH Private Limited	9%	Libor+0.5

In your response consider the following:

i. The respective comparative advantage of the two companies [3 marks]

ii. The gross saving from the Swap arrangement [7 marks]

iii. The net saving assuming that it is shared 2:1 in favour of the most credit worthy company, and after a shared bank commission of 0.15% [5 marks]

TOTAL [25 MARKS]