

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE
PART II – 1ST SEMESTER FINAL EXAMINATION – DECEMBER 2006
MONEY MARKETS [CFI 2103]
TIME ALLOTTED: 3 HOURS 10 MINUTES

INSTRUCTIONS

1. Answer Question **ONE** and **THREE** Others.
2. Show all workings
3. Write Legibly

Question 1

- 1 (a) Imagine you are a British arbitrageur, holding a £1 000 000 sterling, and the following are the market actual exchange rates:

GBP/USD £1 = \$1,5715 -721

USD/JPY \$1 = ¥106,090-120

GBP/JPY £1 = ¥176,720-831

- (i) List the steps you need to take to make a profit **[3]**
 - (ii) Calculate the **rate** of profit you will make. **[4]**
- (b) Rank the following four options, from the most to the least lucrative, given that the interest rate which prevails in the first year is 5% and in the second year is 4%; show all steps and all calculations that lead to your ranking order.
- A. Get \$90 000 today, or
 - B. Get \$50 000 today and \$45 000 a year from now, or
 - C. Get \$45 000 today and \$50 000 a year from now, or
 - D. Get \$100 000 two years from now **[6]**

- (c) Zambezi Ltd is currently holding \$800 000 in cash. It projects that over the next year its cash outflows will exceed its cash inflows by \$345 000 per month. Each time securities are bought or sold through a broker, the company pays a fee of \$500. The annual interest rate on money –market securities is 7%.
- (i) How much of this cash should be retained and how much should be used to increase the company’s holdings of marketable securities? [4]
 - (ii) After the initial investment of excess cash, how many times during the next 12 months will securities be sold? [4]
- (d) Indicate whether the following events increase, decrease or cause no change in a company’s cash balance.
- (i) Interest rates paid on money market securities rise.
 - (ii) Commissions charged by brokers increase.
 - (iii) The compensating – balance requirement of a bank is lowered.
 - (iv) The cost of borrowing decreases. [4]

Question 2

- a) Compare and contrast black markets and parallel markets and find real-world examples that would fit the description of these markets. [15]
- (b) Recommend ways by which Zimbabwe could go about dealing with such illegal foreign currency markets? [10]

Question 3

Discuss the respective roles which the following play in the foreign exchange market:

- (a) Individuals. [5]
- (b) Commercial Banks. [5]
- (c) Foreign Exchange brokers. [5]
- (d) Speculators. [5]
- (e) Arbitrageurs. [5]

Question 4

“Financial Innovation drives Financial Regulation and Financial Regulation drives Financial Innovation”. Using concrete examples, elaborate on this popular view in Financial innovation literature. [25]

Question 5

Discuss the **three** important roles Commercial Banks play in the money market. [25]

Question 6

- (a) What types of companies can use commercial paper to meet their short term financing needs? [10]

- (b) How and why does the cost of commercial paper compare with the cost of short-term bank loans? With the cost of Treasury Bills? [15]