

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE
PART IV – SUPPLEMENTARY EXAMINATION – AUGUST 2010
INTERNATIONAL FINANCE I [CFI 4102]**

TIME ALLOWED: 3 HOURS

Instructions to Candidates

Answer **all** questions

Question 1

Discuss the factors that affect the size of foreign exchange spread. [20 marks]

Question 2

The following table indicates the value of one Australian dollar in terms of New Zealand dollars and Japanese yen over a two day period.

Currency	Day 1	Day 2
Japanese yen	69.0	65.0
New Zealand dollars	1.20	1.25

- i. What has happened to the value the Australian currency from day one to day two? [5 marks]
- ii. All other things being equal, how would a movement in the value of the Australian dollar from \$A1.00 = \$NZ1.20 to \$A1.00 = \$NZ1.25 affect Australian producers and consumers? [5 marks]
- iii. What is the difference between currency devaluation and depreciation? [10 marks]

Question 3

How do currency options compare with currency futures from the perspective of hedgers? [20 marks]

Questions 4

Give an overview of the Bretton Woods system and the reasons behind its collapse? [20 marks]

Questions 5

Briefly describe and discuss the advantages and disadvantages of the following exchange rate regimes: a) Free floating b) crawling peg c) currency board d) monetary union. [20 marks]