



STRATHMORE BUSINESS SCHOOL
BACHELOR OF COMMERCE
END OF SEMESTER EXAMINATION
BNK 4201: TRADE AND INTERNATIONAL FINANCE

DATE: Wednesday, 18th December 2024

TIME: 13:00 – 15:00

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE

- a) The Central Bank can intervene in foreign exchange markets to influence the value of a currency. Explain the following:
- i) Direct and indirect intervention
 - ii) Sterilized intervention vs. non-sterilized intervention
 - iii) How a government can use sterilized intervention to weaken the domestic currency

(6 marks)

- b) XYZ Ltd has agreed to pay €600,000 to a European supplier in three months. The company wants to hedge against foreign exchange risk. The following information is provided:

Spot rate (€/€): 0.8500 - 0.8550

Three-month forward rate (€/€): 0.8600 - 0.8650

Money market rates:

Euro borrowing rate: 5.2% p.a.

Dollar borrowing rate: 4.0% p.a.

Assume XYZ Ltd has no surplus cash at the moment.

Required:

- i) Advise XYZ Ltd whether to use a forward contract or a money market hedge. **(8 marks)**
- ii) Highlight two disadvantages of using a forward contract. **(2 marks)**

- c) Governments utilize various tools to manage international trade and protect domestic industries. Explain how the following measures are used in protectionism:
- i) Voluntary Export Restraints
 - ii) Quotas
 - iii) Export Subsidies
 - iv) Tariffs
- (4 marks)**
- d) Discuss the key differences between Free Trade Agreements (FTA), Customs Unions, Common Markets, and Economic Unions in the context of economic integration.
- (10 marks)**
- (Total 30 marks)**

QUESTION TWO

- a) Describe **three** types of international trade risks and explain how each of these risks can impact a company's operations. **(10 marks)**
- b) Discuss **three** benefits of globalization and two disadvantages of globalization in the context of international trade and finance. **(10 marks)**
- (Total 20 marks)**

QUESTION THREE

- a) You are working as a financial analyst for a multinational company. The finance director has asked you to describe the following types of foreign exchange exposure faced by the company in its global operations and suggest ways to mitigate each.
- i) Transaction exposure
 - ii) Economic exposure
 - iii) Translation exposure
- (9 marks)**
- b) Some countries use a floating exchange rate system while others use a fixed system. Explain what is meant by a floating exchange rate system and discuss two advantages and two disadvantages of this system. **(6 marks)**
- c) The exchange rates of two banks are shown below:

Bank A: Bid (€/€): 0.8600 Ask (€/€): 0.8650

Bank B: Bid (€/€): 0.8700 Ask (€/€): 0.8750

- If an investor has \$200,000, advise how they can use arbitrage to profit from these exchange rates.
- (5 marks)**
- (Total 20 marks)**

QUESTION FOUR

- a) Explain the purpose and main objectives of the International Monetary Fund (IMF). **(3 marks)**
- b) The Bretton Woods system played a key role in international finance until its collapse. Discuss the reasons for the failure of the Bretton Woods system. **(5 marks)**
- c) Explain the role of the World Bank in international trade and economic development. **(5 marks)**
- d) Define a "fixed exchange rate system" and explain three factors that influence exchange rate movements in a fixed rate system. **(7 marks)**
- (Total 20 marks)**

QUESTION FIVE

- a) Explain the following theories of international trade, and discuss their relevance in today's global economy:
- i) Absolute Advantage
 - ii) Comparative Advantage
 - iii) Mercantilism
- (12 marks)**
- b) Define Foreign Direct Investment (FDI) and explain three key factors that should be considered when evaluating the risk of FDI in a developing country. **(8 marks)**
- (Total 20 marks)**