



**STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BNK4201: TRADE AND INTERNATIONAL FINANCE**

DATE: 19th December 2023

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

(30 MARKS)

- a) Governments implement trade policies and measures to restrict or control the flow of goods or services across borders. Explain how the following measures can be applied by the government for protectionism in international trade. **(4 marks)**
- i) Embargoes
 - ii) Currency devaluation
 - iii) Subsidies
 - iv) Voluntary Export Restraints
- b) HM Co has used a foreign supplier for the first time and must pay \$450,000 to the supplier in six months' time. The finance manager is concerned that the cost of these supplies may rise in Euro terms and has decided to hedge the currency risk of this account payable. The following information has been provided by the company's bank.

Spot rate (\$/€):	1.996 -1.998
Six months forward rate (\$/€):	1.975 – 1.981

Money markets rates are available to HM Co.

	Borrowing	Deposit
Euro interest rate per annum	6.1%	5.4%
Dollar interest rate per annum	4.0%	3.5%

Assume it is now 1st December and that HM has no surplus cash at the present time.

Required:

- i) Demonstrate whether HM would prefer to use forward hedge or a money market hedge. **(8 marks)**
- ii) State two advantages of using forward contracts to hedge **(2 marks)**
- c) Governments through the central bank may intervene in the foreign exchange market to control the value of the country's currency. Distinguish the terms:
 - i) Direct and indirect intervention **(2 marks)**
 - ii) Sterilized intervention and non-sterile intervention **(2 marks)**
 - iii) Explain how a government can use sterilized intervention to strengthen Kenya Shillings against US dollars **(2 marks)**
- d) Economic integration has been lauded as a measure to promote trade and cooperation. Discuss the four key stages of economic integration highlighting the key differences in each stage **(10 marks)**

QUESTION TWO (20 MARKS)

- a) Discuss two arguments for protectionism and three against protectionism. **(10 marks)**
- b) State and describe three common types of trade risks that exporters or importers may face in their international trade transactions and explain the implications of these risks to a business. **(10 marks)**

QUESTION THREE (20 MARKS)

- a) Imagine you are a financial analyst working for a multinational company called "GlobalTech.". The finance director has tasked you with assessing the various types of foreign currency exposure the company faces in its international operations. Using examples, explain the following types of foreign currency exposure: **(9 marks)**
 - i) Economic risk
 - ii) Translation risk
 - iii) Transaction risk

b) China has been on the limelight for using a fixed exchange rate system over an extended period and received immense pressure to allow its exchange rate to freely float in the market. Explain the meaning of “fixed exchange rate system” and discuss its key strengths and limitations to an economy. **(6 marks)**

c) Suppose there are two commercial banks A and B with the following exchange rates:

	Bid	Ask
Bank A	Ksh/\$ 100.2	Ksh/\$ 100.9
Bank B	Ksh/\$ 101.5	Ksh/\$ 102

Required

Advice an investor who has Ksh. 500,000 about the strategy and exactly how he or she can generate profits **(5 marks)**

(Total 20 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the main objectives of the Bretton Woods System? **(2 marks)**
- b) Bretton Woods System was programmed for an eventual failure. Comment on the statement. **(3 marks)**
- c) Explain the mechanism which restores the balance of payments equilibrium when it is disrupted under the gold standard **(5 marks)**
- d) The Bretton Woods institutions, that is, the International Monetary Fund and the World Bank have been accused of not doing enough to avert the world financial crisis. What are the criticisms of the IMF? **(5 marks)**
- e) What is a pegged exchange rate system? Explain two pros and one con of this system **(5 marks)**

QUESTION FIVE (20 MARKS)

a) Imagine you are an economic advisor to a small island nation called "Economica." Economica has recently been exploring opportunities for international trade to boost its economy. As the advisor, you are tasked with providing an in-depth analysis of the following theories of international trade: **(12 marks)**

- i) Mercantilism
- ii) Comparative Advantage
- iii) Heckscher Ohline

b) What is foreign direct investment? Discuss any three risk considerations before undertaking foreign direct investment (8 marks)