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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DIPLOMA IN BANKING AND FINANCE

Date: 9th August, 2024
Time: 11.30am –1.30pm

DBF 1107 FINANCE OF INTERNAIONAL TRADE PAYMENTS AND SERVICES

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

a) In many ways, one of the key differences between international and domestic trade and banking can be seen as substantially increased risk in various forms. Discuss any three sorts of risks inherent in trading across borders (6 Marks)

b) Explain any six reasons why a government would want to impose trade barriers on international trade. (6 Marks)

c) International traders normally prefer trade financing as a means of solving their working capital issues. Explain any three methods of trade finance that a trader would utilize (6 Marks)

d) Explain any three factors that affect foreign exchange rates (6 Marks)

e) Assume the Kenyan shilling is quoted against Sterling pound as follow:

Spot rate: £1: Kes. 156 (Buy) - 166(Sell) Discount added

3 months forward £1: Kes. 207 (Buy) - 222 (Sell)

i) Determine the amount of Sterling Pound required to buy (banks sell) 2 million shillings at spot rate and 3 months' time under forward exchange rate (3 Marks)

ii) Compute amount sterling £ one would get if he was to sell (banks buys) 2 million shillings at spot rate and 3 months' time under forward exchange rate (3 Marks)

QUESTION TWO (20 MARKS)

a) Discuss any four major reasons for the development of international trade (8 Marks)

b) Non-tariff barriers are measures used in international trade and imposed by governments to restrict imports. Describe any three types of non-tariff barriers that an authority may impose (8 Marks)

c) Differentiate between a bid trade bond and a performance bond (4 Marks)

QUESTION THREE (20 MARKS)

a) 1 kilogram of sugar costs ksh. 200 in Kenya. The same amount of sugar cost Tsh.4, 200 in Tanzania. If the official exchange rate between the two currencies is ksh.1=Tsh.19.59

Required:

i) Calculate the purchasing power parity (6 Marks)

ii) Determine whether or not the Kenyan shilling is overvalued (2 Marks)

b) Describe four ways in which a multinational corporation can minimize effects of political interference (8 Marks)

c) Differentiate between a ``greenfield investment'' and ``acquisition'' as used in international trading (4 Marks)

QUESTION FOUR (20 MARKS)

a) Bonds indemnify a lender from loss by acting as a security. Highlight and explain four types of bonds used security (8 Marks)

b) Multinational firms have adopted different strategies of dealing with foreign exchange risk which poses a threat to them as they would lose funds during transactions. Explain any four hedging strategies that can be adopted (8 Marks)

c) Differentiate between internal business environment and external business environment (4 Marks)

QUESTION FIVE (20 MARKS)

a) Any business operating internationally has to consider and know how to deal with foreign exchange matters. Highlight and explain three ways that foreign exchange can affect a business (8 Marks)

b) Highlight four advantages accrued by a multinational firm from engaging in international trade (8 Marks)

c) Discuss the following terms as used in international trade

i) Bankers' acceptance (2 Marks)

ii) Working capital finance (2 Marks)

iii) Letters of credit (2 Marks)

iv) Down payment (2 Marks)