ZIMBABWE

MINISTRY OF HIGHER AND TERTIARY EDUCATION

HIGHER EDUCATION EXAMINATIONS COUNCIL (HEXCO)

NATIONAL DIPLOMA

IN

BANKING AND FINANCE

SUBJECT: Foreign Exchange Management **PAPER NO:** 524/S05

MARCH/APRIL 2013 EXAMINATION

REQUIREMENTS

INSTRUCTIONS TO CANDIDATE

Answer any FIVE (5) questions.

This paper consists of 3 printed pages.

PAPER NO: 524/S05 – FOREIGN EXCHANGE MANAGEMENT

QUESTION 1

a) Distinguish between a country's balance of trade and its terms of trade. (4 marks)

b) To what extent can a government influence its balance of trade and its terms of trade? (6 marks)

- Embargoes
- Tariffs
- Quotas
- Duties
- Total ban
- Standardisation

c) What are the limitations of using technical forecasting to predict exchange rates? (10 marks)

- Forces of d & supply
- Devaluation & revaluation
- Sanctions
- Natural disasters
- Substitutes
- Controlled trade

Money supply

QUESTION 2

a) Explain the role of the following players in the foreign exchange market:

i) Dealers
ii) Foreign exchange brokers
iii) Central banks
iv) Companies
v) Individuals

(10 marks)

b) Describe the processes that are involved in a foreign exchange transaction. (10 marks)

QUESTION 3

a) Analyse the arguments for and against the flexible exchange rate regime. (10 marks)

- reaching desired goals
- speculation
- devaluation & revaluation
- purchasing power

b) Examine the problems that are likely to be encountered under a currency board. (10 marks)

QUESTION 4

a) Given the following information, calculate the bid/ask percentage spread:

Currency	BidRate	AskRate
British Pound (£)	$1.52	$1.60
Japanese Yern (¥)	$0.0070	$0.0074

(2 marks)

b) Assume the following exchange rates:

£1 = US$1.5580
£1 = Can$2.1382

Compute the cross rate between the US$ and the Canadian dollar. (2 marks)

c) Consider the following quotations:

	Bid	Ask
Direct Quotation $/£	1.9070	1.9075
Direct Quotation $/€	1.2022	1.2028

Transform these rates into indirect quotations. (8 marks)

d) What would motivate the central bank to weaken the value of its currency? (8 marks)

QUESTION 5

1

Justify the institution of exchange controls in a country of your own choice. (20 marks)

exports & imports receive fair value of our resources

QUESTION 6

a) Discuss the Purchasing Power Parity (PPP) theory. (8 marks)

b) Define foreign exchange exposure, differentiating between accounting and economic exposure. (4 marks)

c) What factors influence a firms' transaction exposure? For each factor, explain the desirable characteristics that would reduce transaction exposure. (8 marks)

QUESTION 7

6

Identify and explain the sources of financing for a firm involved in international business. (20 marks)

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