



**The Co-operative University of Kenya**  
**END OF SEMESTRE EXAMINATION NOVEMBER-2019**  
**EXAMINATION FOR THE DIPLOMA IN BANKING & FINANCE**  
**(YR I SEM II)**

**UNIT CODE: DMBF 1103**

**UNIT TITLE: INTERNATIONAL TRADE FINANCE**

**DATE: 29<sup>TH</sup> NOVEMBER, 2019**

**TIME: 2:00 PM – 4:00 PM**

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**INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

**QUESTION ONE**

- (a) Give the meaning of the following terms;
- i. Foreign exchange rate (2mks)
  - ii. Spot exchange rate (2mks)
  - iii. Forward exchange rate (2mks)
  - iv. Currency futures (2mks)
  - v. Currency swaps (2mks)
- (b) Explain FIVE significance of international finance (6mks)
- (c) Discuss the TWO components parts of economic exposure in international trade (4mks)
- (d) Discuss FOUR reasons for rapid growth of futures and option markets (8mks)
- (e) Define the term international finance (2mks)

**QUESTION TWO**

- (a) Discuss FOUR common ways of minimizing exchange rate exposure (8mks)
- (b) Explain what is meant by the term Purchasing Power Parity (PPP) (4mks)
- (c) Discuss the main participants in the foreign exchange market (8mks)

**QUESTION THREE**

- (a) Discuss FIVE determinants of exchange rates (15mks)
- (b) Briefly, explain functions of foreign exchange market (5mks)

**QUESTION FOUR**

- (a) Discuss three theories of international business (12mks)
- (b) Discuss Interest rate parity (3mks)
- (c) Distinguish between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) (5mks)

**QUESTION FIVE**

- (a) Explain determinants of demand and supply of foreign currency (10 mks)
- (b) Discuss three key items that currency futures contract should specifies (6mks)
- (c) Differentiate between the call option and the put option (4mks)