



# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATIONS AUGUST-2018**

**EXAMINATION FOR THE DIPLOMA IN BANKING AND FINANCE**  
**(YR I SEM II)**

**UNIT CODE: DMBF 1103**

**UNIT TITLE: INTERNATIONAL TRADE FINANCE**

**DATE: 23<sup>RD</sup> AUGUST, 2018**

**TIME: 2:00 PM – 4:00 PM**

## **INSTRUCTIONS:**

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

## **QUESTION ONE**

- Give the meaning of the following terms;
  - Foreign exchange rate (2 Marks)
  - Spot exchange rate (2 Marks)
  - Forward exchange rate (2 Marks)
  - Currency futures (2 Marks)
  - Currency swaps (2 Marks)
- Explain FIVE significance of international finance (6 Marks)
- Discuss the TWO components parts of economic exposure in international trade (4 Marks)
- Discuss FOUR reasons for rapid growth of futures and option markets (8 Marks)
- Define the term international finance (2 Marks)

## **QUESTION TWO**

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

## **QUESTION THREE**

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

## **QUESTION FOUR**

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

## **QUESTION FIVE**

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