THE INSTITUTE OF BANKERS OF ZIMBABWE

P O BOX 10521
HARARE

TELEPHONE: 744686
EMAIL: info@iobz.co.zw

DIRECTOR : S T BIYAM F.I.B.Z

14177 Gunhill Avenue

GUNHILL
HARARE

PRESIDENT: E MLAMBO F.I.B.Z
CHAIRMAN: S MALABA F.I.B.Z.

SERVICE FIDELITY KNOWLEDGE

DIPLOMA LEVEL	
SUBJECT	FINANCE OF INTERNATIONAL TRADE II
DATE	15 APRIL 2015
TIME	3 HOURS
MARKS	100
EXAM TYPE	CLOSED BOOK

AA IOB
Alliance of African Institutes of Bankers

INSTRUCTIONS TO CANDIDATES

1. Read the instructions CAREFULLY before answering the paper
2. Answer any four (4) questions
3. Each question carries 25 marks
4. Please be neat – illegible handwriting cannot be marked
5. Use black or blue ink
6. Ensure that all information on the cover of your answer book is completed in full.
7. Cheating is not allowed. If anyone is caught cheating, disciplinary measures will be taken by the Institute of Bankers.

GOOD LUCK !

FINANCE FOR INTERNATIONAL TRADE 11

APRIL 2015

INSTITUTE OF BANKERS OF ZIMBABWE (IOBZ)

INSTRUCTIONS: Answer any Four (4) questions. Each question carries equal marks (25 marks).

1. Briefly explain any five factors that influence the exchange rate. [25]
2. Define the term "Incoterms". [5]
    a. Describe the following incoterms:
        i. Free on Board (FOB) [5]
        ii. Cost Insurance Freight (CIF) [5]
        iii. Delivered Duty Unpaid (DDU) [5]
        iv. Free Alongside Ship (FAS) [5]
3. Distinguish between a call and a put option. [5]
    a. Describe key factors that influences the value of an option. [20]
4. International trade is associated with numerous risks. Highlight any five risks associated with international trade.
5. Explain in brief why borrowers opt to secure credit lines offshore. [25]

FINANCE FOR INTERNATIONAL TRADE 11

APRIL 2015

SUGGESTED SOLUTIONS

Question 1

The exchange rate can be influenced by the following factors:

a. **Inflation differentials** – difference between a country's inflation rate and that of trading partner countries.
b. **Interest rate differentials**
c. **Supply and demand factors** – supply factors include export performance (goods and services), attraction of capital flows (debt and non-debt creating i.e loans, FDI, Portfolio investment). Demand factors include imports of goods and services, debt service payments and other capital outflows;
d. **Leads and lags** –the impact of expectations by creditors and debtors of an economy
e. **Policy Measures** – these could be in the form of direct intervention measures and controls on international payments.
f. **Macroeconomic Environment** – this can instil confidence or otherwise resulting in the flight of capital or the attraction of it in the domestic economy through investment channels.
g. **Political situation –** political instability can occasion speculation that may affect capital movements and the exchange rate.
h. **Seasonal factors** – for instance the agricultural season can result in exports of certain products increasing a certain time of the year.

Question 2

Incoterms refer to terms describing the different parties' responsibility in international trade. As such, these are commonly applied codes in trade that standardise the allocation of responsibilities for goods in transit from seller to buyer (exporter to importer).

- **Free on Board (FOB)** – the exporter's obligation terminates once goods are loaded onto the ship. The importer's obligations thus commence thereafter
- **Cost Insurance and Freight** (CIF) – under CIF the exporter arranges insurance and covers freight charges.
- **Delivered Duty Unpaid (DDU) –** the exporter's obligations extends to delivering the goods at the named destination in the importer's country. As such, freight/transport costs are covered by the exporter. The importer is obliged to arrange insurance and clearing of the goods through customs.
- **Free Alongside Ship (FAS) –** under FAS export delivers the goods alongside ship for shipment purposes. Subsequent costs or loading and shipment are borne by the importer.

Question 3

- A **Call Option** gives the option holder the right to buy the underlying asset.
- A **Put Option** gives the holder the right and not an obligation to sell the underlying asset.

The value of an option can be influenced by the following factors:

a. Current Price and Strike price;
b. Time to expiration;
c. Price volatility
d. Risk free interest rate

Question 4

Risks of international trade include the following:

- Foreign exchange risk
- Commercial risk
- Political Risk
- Cultural Risk
- Economic Risk
- Physical risk.

Question 5

Borrowers sometimes prefer to access their credit lines offshore for the following reasons:

i. To take advantage of relatively lower and affordable interest rates associated with wholesale international capital markets;
ii. When borrowers expect foreign currencies to depreciate against domestic currencies;
iii. Large companies and Governments may access huge sums at concessional terms on the back of low credit risk status;
iv. International interest rates are based on the London Interbank Rate (LIBOR) which is usually low and affordable to borrowers in high interest markets.