



### Question ONE

a) Define the following terms as used in the foreign exchange markets.

Spread	(2marks)
Forward Spread	(2marks)
Direct Quote	(2marks)
Indirect Quote	(2marks)
Spot Rate	(2marks)
Forward Rate	(2marks)
Cross Rate	(2marks)

b) State 5 factors that affect exchange rate in a country (10 marks)

c) Discuss the major factors you would consider when choosing an investment vehicle in an international market (6 marks)

d) Describe on any two major types of exchange rates in international finance (4marks)

e) Name ANY two International Financial market (2marks)

### Question TWO

a) List any 5 factors that affects working capital (10 marks)

b) Rahave Ltd. is producing articles mostly by manual labour and is considering replacing it by a new machine. There are two alternative models X and Y of the new machine. Prepare a statement of profitability showing the pay-back period from the following information

	Machine x	Machine y
Estimate life of the Machine	4 Years	5Years
Cost of machine	180,000	360,000
Estimated savings in scrap	10,000	16,000
Estimated savings in direct wage	120,000	160,000
Additional cost of maintenance	16,000	20,000
Additional cost of supervision	24,000	36,000

(10marks)

### Question THREE

- a) State 5 factors to be considered when choosing Euromarkets or Domestic markets  
(10marks)
- b) What is payback method? State its advantages and Limitations (10marks)

### Question FOUR

- a) Assume that the direct quote between the \$ and £ is £1 = \$ 1.5 and that the inflation rate in UK is 10% and the inflation rate in the US is 6%.

**Required** Compute the % change in the direct quote and determine the new exchange rate.  
(5marks)

- b) Assume that the foreign currency (F) has been quoted against the £ as follows :

Spot rate	£1: F2156 – 2166
3 months forward rate	£1: F2207 – 2222

Required:

- Determine the amount required in sterling pound to buy 2 million foreign currencies
  - At the spot
  - In 3 months time under the forward exchange contract.
- Compute the amount a customer would get if he were to sell 2 million foreign currency.
  - At the spot rate
  - In 3 months time under forward exchange contract (15 marks)

### Question FIVE

- a) Differentiate between ‘transaction exposure’ and ‘translation exposure’ as used in international finance (6marks)
- b) “Parity conditions are an explanation for the long-run value of exchange rates” In light of this statement, discuss any six major determinants of foreign exchange rates. (12 marks)
- c) ABC Ltd. makes cash payments of Shs.10,000 per week. The interest rate on marketable securities is 12% and every time the company sells marketable securities, it incurs a cost of Shs.20.

**Required**

- a) Determine the optimal amount of marketable securities to be converted into cash every time the company makes the transfer. (2 marks)

