



CRAWFORD UNIVERSITY

FAITH CITY, IGBESA

TITLE OF EXAMINATION : B.Sc EXAMINATION.

COLLEGE: COLLEGE OF BUSINESS AND SOCIAL SCIENCES

DEPARTMENT: ACCOUNTING AND FINANCE

SESSION: 2020/2021

SEMESTER: RAIN

COURSE TITLE: INTERNATIONAL FINANCE II

COURSE CODE: FIN 410

CREDIT: 3 UNITS

TIME ALLOWED: 2 HOURS 15 MINUTES.

INSTRUCTIONS: (i) Answer questions one(1) and two(2) and any other two (2).

(ii) Time allowed: 2 hours 15minutes

QUESTION ONE

Comprehensively discuss the term "Hedging"

(10MARKS)

QUESTION TWO

XYZ agric products Ltd is importing two container loads of 1000 agric feeds at \$40 per feed. They could pay cash in order to enjoy trade discount of 20%. In this event, the funds would be sourced at the prevailing lending rate of 30%.

Alternatively, they could pay in two months and cover the exchange risk forward in the forward exchange market.

Using the following exchange rate quotation and assuming a clearing cost of ₦400,000 for both containers, advise the company which of the options is cheaper.

USD to ₦	175.6450	-	180.9610	
1 Month	10.4518	-	12.0100 premium	
2 Months	15.5000	-	16.9050 premium	
3Months	17.0000	-	17.5080 premium	(20MARKS)

QUESTION THREE

Critically discuss the instruments used by the Central Bank of Nigeria (CBN) in managing foreign exchange. **(15MARKS)**

QUESTION FOUR

- (a) Explain what is meant by a "forward exchange contract" and distinguish between a "fixed forward" and a "forward option". **7mks.**
- (b) Bank sells \$50,000 to a local merchant at ₦125.5000 spot on fixed 3 months margin of ₦6.7500 premium. Calculate the percentage cost of covering forward. **8mks**
- (15MARKS)**

QUESTION FIVE

The exchange rates of currencies are never constant for an indefinite period. It fluctuates in response to demand for and supply of foreign exchange in the foreign exchange market. Discuss

(15MARKS)

QUESTION SIX

Briefly discuss the following:

- a. Correspondent banking.
- b. Arbitrage.
- c. Options contract.

5mks

5mks

5mks

(15MARKS)