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CRAWFORD UNIVERSITY

FAITH CITY, IGBESA

TITLE OF EXAMINATION : B.Sc EXAMINATION.
COLLEGE: COLLEGE OF BUSINESS AND SOCIAL SCIENCES
DEPARTMENT: ACCOUNTING AND FINANCE
SESSION : 2014/15 **SEMESTER: RAIN**
COURSE: CAPITAL INTERNATIONAL FINANCE II
COURSE CODE: FIN 410 **CREDIT: 3 UNITS**
INSTRUCTIONS: (i) Answer question 1 and any other two
(ii) Time allowed :2 hours 15 minutes

1 a) The most exciting thing about the foreign exchange markets is the simplicity of the applicable principles on rate and application such as:

- i) Buy high, sell low.
- ii) Premium add, discount deduct.

Explain the applicability of these principles as regards the foreign exchange market system.

(12mks)

b) We are operating from London and the following rates apply on 1st of April 2012

Spot	Forward
US \$2.1005 – 2.1550	1month 0.80 – 0.85 cents pm
	2month 1.30 - 1.40 cents pm
	3month 1.80 - 1.90 cents pm
Naira 1780 - 1795	1 month 110 – 120 kobo disc
	2 month 130 – 150 kobo disc
	3 month 160 – 210 kobo disc

You are required to quote exchange rates for the following transactions:

- i) Bank selling rate for U.S dollar under a one month fixed forward contract. (3mks)
- ii) Bank buying rate for U.S dollar under a 3 months fixed forward contract. (3mks)
- iii) Bank selling rate for Naira under a one month fixed forward contract. (3mks)
- iv) Bank selling rate for U.S \$ under a two months option contract. (3mks)
- v) Bank selling rate for U.S \$ under a two months option contract, option over second month. (6mks)

(30MARKS)

- 2.** a) Outline the importance of foreign exchange control regulations (10mks)
- b) The 9-month U.K interest rate is 8% and the U.S interest rate is 9%. The spot selling rate is U.K £0.50/\$1. What is the price of 140 days dollar futures contract which is just 80 days into the contract. (5mks)
- c) What is the forward margin if =N=94.5950 was quoted before heavy buying and selling activities leading to moderate profit level closing the rate at =N=95.60 while the operational cost of 6 months contract closed at 4.41% per year. (5mks)

(20MARKS)

3. "Futures are the most volatile and risky of the derivatives with the greatest potential for Loss." Discuss, highlighting:

- i) the merits and demerits of use of futures, and;
- ii) how the potential loss could be counteracted or minimised.

(20MARKS)

4. A regime of fixed exchange rates pre-supposes uniformity of domestic policy objectives and response of prices to fluctuations in demand. Such a system would undoubtedly run into severe difficulties in the present day world. Discuss. (20MARKS)

5. Write short notes on:

(a) Arbitrage and role of Arbitrageurs.

(5mks)

(b) Hedging and covering methods.

(5mks)

(c) Uses of Derivatives.

(5mks)

(d) Distinguish between a fixed forward and a forward option.

(5mks)

(20MARKS)

A.2015
