NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: 07BECO	LEVEL: 7
COURSE CODE: IFN712S	COURSE NAME: INTERNATIONAL FINANCE
SESSION: FEBRUARY 2019	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION PAPER	
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INSTRUCTIONS
1. This paper consist of section **A,B** and **C** 2. Answer **ALL** questions 3. Number your answers in accordance with the question paper. 4. Start each section answer on a new page 5. Write clearly and legibly

PERMISSIBLE MATERIALS

1. Pen
2. Ruler
3. Calculator

THIS EXAMINATION PAPER CONSISTS OF 7 PAGES (Including this front page)

SECTION A

QUESTION ONE [20 MARKS]

Choose the one alternative that best completes the statement or answers the question.

1) Which of the following are securities?
A) A share of Texaco common stock
B) A Treasury bill
C) A certificate of deposit
D) All of the above
E) Only (a) and (b) of the above

2) Which of the following are long-term financial instruments?
A) A six-month loan
B) A negotiable certificate of deposit
C) A bankers acceptance
D) A U.S. Treasury bill
E) None of the above

3) Which of the following are short-term financial instruments?
A) A bankers acceptance
B) A U.S. Treasury bill
C) A negotiable certificate of deposit
D) A six-month loan
E) All of the above

4) Which of the following statements about financial markets and securities are true?
A) A debt instrument is long term if its maturity is ten years or longer.
B) The maturity of a debt instrument is the time (term) to that instrument's expiration date.
C) A debt instrument is intermediate term if its maturity is less than one year.
D) A bond is a long term security that promises to make periodic payments called dividends to the firm's residual claimants.

5) A coupon bond pays the owner of the bond
A) the same amount every month until maturity date.
B) the face value of the bond plus an interest payment once the maturity date has been reached.
C) the face value at the maturity date.
D) a fixed-interest payment every period and repays the face value at the maturity date.
E) none of the above.

6) If a $5,000 coupon bond has a coupon rate of 13 percent, then the coupon payment every year is
A) $13.
B) $1,300.
C) $650.
D) $130.
E) None of the above.

7) An $8,000 coupon bond with a $400 coupon payment every year has a coupon rate of
A) 10 percent
B) 8 percent
C) 40 percent
D) 5 percent

8) With an interest rate of 5 percent, the present value of $100 next year is approximately
A) $95.
B) $105.
C) $100.
D) $90.

9) Which of the following $1,000 face-value securities has the highest yield to maturity?
A) A 5 percent coupon bond with a price of $600
B) A 5 percent coupon bond with a price of $800.
C) A 5 percent coupon bond with a price of $1,200.
D) A 5 percent coupon bond with a price of $1,500.
E) A 5 percent coupon bond with a price of $1,000.

10) If a $10,000 face-value discount bond maturing in one year is selling for $5,000, then its yield to maturity is
A) 50 percent.
B) 10 percent.
C) 100 percent.
D) 5 percent.

11) The current yield on a $5,000, 8 percent coupon bond selling for $4,000 is
A) 8 percent.
B) 5 percent.
C) 10 percent.
D) 20 percent.
E) none of the above.

12) What is the return on a 5 percent coupon bond that initially sells for $1,000 and sells for $1,200 next year?
A) 5 percent
B) -5 percent
C) 10 percent
D) 25 percent
E) None of the above

13) If the interest rates on all bonds rise from 5 to 6 percent over the course of the year, which bond would you prefer to have been holding?
A) A bond with one year to maturity
B) A bond with ten years to maturity
C) A bond with five years to maturity
D) A bond with twenty years to maturity

14) In which of the following situations would you prefer to be making a loan?
A) The interest rate is 25 percent and the expected inflation rate is 50 percent.
B) The interest rate is 4 percent and the expected inflation rate is 1 percent.
C) The interest rate is 9 percent and the expected inflation rate is 7 percent.
D) The interest rate is 13 percent and the expected inflation rate is 15 percent.

15) The nominal interest rate minus the expected rate of inflation
A) is a better measure of the incentives to borrow and lend than is the nominal interest rate.
B) defines the real interest rate.
C) is a more accurate indicator of the tightness of credit market conditions than is the nominal interest rate.
D) indicates all of the above.
E) indicates only (a) and (b) of the above.

16) A credit market instrument that pays the owner a fixed coupon payment every year until the maturity date and then repays the face value is called a
A) discount bond.
B) fixed-payment loan.
C) simple loan.
D) coupon bond.

17) A ______ pays the owner a fixed coupon payment every year until the maturity date, when the ______ value is repaid.
A) coupon bond; discount
B) discount bond; face
C) discount bond; discount
D) coupon bond; face

18) The interest rate that equates the present value of payments received from a debt instrument with its value today is the
A) simple interest rate.
B) yield to maturity.
C) discount rate.
D) real interest rate.

19) When bond interest rates become more volatile, the demand for bonds _____ and the interest rate _____.
A) increases; rises
B) increases; falls
C) decreases; rises
D) decreases; falls

20) In the foreign exchange market, the__________of one country is traded for the __________of another country.

A) currency; currency

B) currency; financial instruments

C) currency; goods

D) goods; goods

SECTION B

QUESTION 1 **[15 MARKS]**

Define the following concepts

a. Current account
b. Trade balance
c. Official reserve assets
d. Eurobond
e. Foreign exchange market.

QUESTION 2 **[30 MARKS]**

Discuss the advantages and the disadvantages of the Euro Bonds

SECTION C

QUESTION 1 **(10 MARKS)**

Discuss they key characteristics of Bonds

QUESTION 2 **[25 MARKS]**

Identify the following transactions by whether they belong in the U.S. current account or financial account, positively (contributing to a surplus in that account) or negatively. Put a plus or a minus sign in the appropriate column.

	Current Account	Financial Account
a. U.S. farmer sells a truckload of artichokes to a Canadian restaurant.		
b. A German professor is paid royalties on a textbook published by a Boston publishing firm.		
C. A student in Thailand deposits dollars in Los Angeles bank account, planning to later pay tuitions at UCLA		
d. The owner of a pizza chain in Kansas sends $1000 to relatives in Sicily		
e. An American company buys a warehouse in Ireland.		
f. AT&T pays dividends to holders of its stock in Brazil.		
g. A Brazilian widow buys stock in AT&T.		
h. A Michigan student, preparing for a semester abroad in France, buys $1000 worth of French currency from an Ann Arbor bank.		