NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF ECONOMICS	
QUALIFICATION CODE: 07BECO	**LEVEL:** 7
COURSE CODE: IFN712S	**COURSE NAME:** INTERNATIONAL FINANCE
SESSION: NOVEMBER 2023	**PAPER:** THEORY
DURATION: 3 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION PAPER	
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INSTRUCTIONS

1. This paper consist of 4 sections; **A, B, C, and D.**
2. Chose one question from each section.
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 (Programmable calculators are not allowed)

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

SECTION A:

Answer questions 1 (a-c) or 2

Question 1(a) MULTIPLE CHOICE QUESTIONS **[10 Marks]**

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
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) 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 $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.

7 The...... theory is not one of the theories developed to explain the determination of rate of exchange

a) Mint Parity Theory
b) Purchasing Power Parity Theory
c) Balance of Payment Theory
d) Monetarisim payment theory

8. Debit items in the BOP accounts reflect transactions that;

a) Give rise to payments outward from the country
b) Leads to exports and imports of goods and services
c) Maintain a systematic record of all economic transactions between the home country and the rest of the world
d) None of the above

9. 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.

10. 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

Question 1(b): TRUE OR FALSE **[10 Marks]**

1. At the AfDB, each Governor represents his or her country and exercises a voting power proportionate to the capital subscription of his or her country.
2. The IMF is a regional multilateral development finance institution established to contribute to the economic development and social progress of African countries that are the institution's Regional Member Countries (RMCs).
3. The current account balance is not important because it does not reflects sources and uses of national income.
4. Change in price-cost structure of export oriented industries is an important external factor which causes BOP Disequilibria.
5. On the current account table, Income (interest and dividends received from investments abroad) is recorded on the credit side of the statement.
6. The demand for currencies is derived from the demand for a country's exports, and from speculators looking to make a profit on changes in currency values.
7. The Eurodollar is not accepted in Namibia.
8. A Eurobank is a financial institution that only allows the deposits and loans of Euro currency.
9. Governments is not sufficient to encourage inward FDI by offering incentives to foreign firms to invest in their countries.
10. When tax revenues are sufficient, the government can make up the difference by issuing debt.

Question 1(c): **[10 Marks]**

Explain the difference between the following commonly used pairs of economic terms in international finance.

- i. **Spot market and Forward market**
- ii. **Real exchange rate and Nominal exchange rate**
- iii. **Eurobond and foreign bond.**
- iv. **Flexible exchange rate and fixed exchange rate**
- v) **Current and capital account**

Question 2: **[30 Marks]**

It is generally known that investors are primarily concerned about the rates of return on currency deposits. Rates of return that investors expect to earn are determined by interest rates that the assets will earn and expectations about appreciation or depreciation of the currency.

REQUIRED: Suppose the interest rate on a dollar deposit is 3% and 5% on a euro deposit. Suppose today the exchange rate is \$1/€1, and the expected rate one year in the future is \$0.90/€1. \$400 can be exchanged today for €400.	**Marks**
i) How much €400 will yield after one year?	5
ii) Calculate the value of €400 after one year, express the value in \$.	5
iii) Calculate the rate of return in terms of dollars from investing in euro deposits.	5
iv) Calculate the rate of return from a dollar deposit.	5
v) Calculate the expected rate of appreciation of the euro.	5
vi) Calculate the dollar rate of return on euro deposits.	

SECTION B

Answer any 1 of the following questions

Question 1 **[30 Marks]**

When the quantity of real monetary assets supplied matches the quantity of real monetary assets demanded, the money market will be in equilibrium. The money market is influenced by many factors, including but not limited to, changes in interest rates, prices and the level of income.

REQUIRED:		**Marks**
i)	Draw an appropriate graph to demonstrate the relationship between the real money holdings and the level of interest rate.	**10**
ii)	Use an appropriate graph to demonstrate the effect of an increase in the money supply on the interest rate.	**10**
iii)	Draw an appropriate graph to demonstrate the effect on the interest rate of a rise in real income.	**10**

QUESTION 2 **[30 MARKS]**

Explain in detail five main factors that affect exchange rate in any country.

SECTION C

Answer any 1 of the following questions

QUESTION 1 **[20 MARKS]**

(a) Specify the function of the aggregate demand of money. (3)
(b) Specify the function of the aggregate demand of real monetary assets. (4)
(c) Mention 3 examples of narrow money. (3)

(d) Mention and discuss 5 participants in the foreign exchange market. (10)

QUESTION 2 (a) **[10 MARKS]**

Most of the Least Developed Countries (LDCs) are characterized by unsustainable level of debt and but they continue to borrow even more, explain why do these countries experience unsustainable debt?

QUESTION 2 (b) **[10 MARKS]**

Complete the following **Balance of Payment Table** indicating the source of foreign currency in the domestic economy.

Inflow of foreign currency [Supply]	Outflow of foreign currency [Demand]

SECTION D

Answer any 1 of the following questions

QUESTION 1 **[20 MARKS]**

Briefly discuss five (5) key market participants in the foreign exchange market and explain what their roles are.

QUESTION 2 **[20 MARKS]**

(a) State the equation for real interest parity. (5)

(b) Explain the meaning of real interest parity. (5)

(c) State the equation for real interest rates. (2)

(d) Explain the significance and meaning of absolute PPP. (3)

(e) Explain the significance and meaning of Relative PPP. (5)