TECHNICAL UNIVERSITY OF MOMBASA

UNIVERSITY EXAMINATIONS 2023/2024

EXAMINATION FOR THE DEGREE OF MATHEMATICS AND FINANCE

BFI 4410: FOREIGN EXCHANGE AND INTERNATIONAL TRADE

END OF SEMESTER EXAMINATIONS A

SERIES: DECEMBER 2024

INSTRUCTIONS

-Attempt any four questions

-Mobile phones are not allowed in the examination room.

-Cheating leads to disqualification.

QUESTION ONE

1(a) Explain how a weakened banking sector with low bank capital, rising foreign interest rates, asymetric Information and regulatory failures can contribute to the onset of both a currency and financial crisis.(10marks).

(b) Explain the main features of a financial crisis (10marks)

(c) Assume that as of April 4, a futures contract specifying 600,000 Mexican pesos and a June settlement date is priced at $0.09. On April 4, speculators who expect the peso will decline sell futures contracts on pesos. Assume that on June 17 (settlement date), the spot rate of the peso is $ 0.08. Calculate the gain on the futures position.(4marks)

(d) Discuss factors that can cause exchange rates to fall (6marks)

QUESTION TWO

2 (a) Assume that Central Bank's primary goal is to correct a weak economy. How can it use monetary tools to achieve its goal (14marks).

(b) Discuss factors that have led to the growth of international equity markets (10marks)

QUESTION THREE

3(a) Evaluate the importance of derivatives in financial markets (10marks)

(b) Discuss the sources of International Financing (10marks)

QUESTION FOUR

(b) Explain how term structure of interest rates and the yield curve be used to judge the health of the credit market.

QUESTION FIVE

5 (a) Discuss the features of a developing economy financial market make it more difficult for the country's central bank to protect their currency (10marks).

(b) Discuss factors affecting a countrys balance of payments (10marks)