

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INTERNATIONAL TRADE FINANCE (IOBM – D202)**

**Date: Tuesday, 18th November 2014**

**Time Allocated: 3 hours (08:00-11:00 hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

(a) Explain the Mercantile Theory of Trade and how it would help Malawi come out of its under-development predicament. Give practical examples for your argument.  *(7 marks)*

(b) Discuss **four** risks that a Malawian company faces when importing or exporting commodities in its line of operations. *(8 marks)*

**(Total 15 marks)**

**QUESTION 2**

Discuss in detail the **three** steps involved in the operation of the Documentary Collection. *(15 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Define **three** options that are acceptable under UCP600, article 22 on signing the Charter Party Bill of Lading.  *(6 marks)*

(b) Explain **three** major features that a Bill of Lading must indicate in order to have it acceptable under UCP600, article 20. *(6 marks)*

(c) With regards to the following Incoterms, who is responsible to pay marine insurance? *(3 marks)*

(i) CPT

(ii) DEQ

(iii) FCA

**(Total 15 marks)**

**QUESTION 4**

(a) By citing **three** examples each, distinguish between Financial Documents and Commercial documents in a Documentary Collection.  *(3 marks)*

1. What are the **four** major categories of incoterms and cite **one** example under each category. *( 8 marks)*
2. Define Avalisation and explain **one** instance in which this process is used.

*(4 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section.

**QUESTION 5**

(a) Discuss the benefits and disadvantages of forfaiting to the Exporter.

*(10 marks)*

(b) One of your export customers has entered into contract with a Zimbabwean importer. The customer is exporting for the first time and is not well conversant with Letter of Credit terms and conditions. As the Banker to the customer please advise him the generic checklist required to protect him in the transaction.  *(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

(a) Explain **four** major risks associated with Bank Guarantees. *(8 marks)*

(b) Explain in detail to your customer the essential features of a Demand Guarantee.  *(8 marks)*

(c) Define the following SWIFT messages types to demonstrate your knowledge of Letters of Credits and Bank Guarantees*. (4 marks)*

(i) MT767

(ii) MT756

(iii) MT720

(iv) MT740

**(Total 20 marks)**

**QUESTION 7**

(a) Define a Standby Letter of Credit and discuss how it operates. *(10 marks)*

(b) Discuss why the Exchange Control process in Malawi is prohibitive to Trade.

*(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Discuss **four** ways in which Malawian banks could help traders reduce their foreign exchange exposure. *( 8 marks)*
2. Explain the difference between an off balance sheet and on balance sheet item and cite **one** example of each item.  *( 6 marks)*
3. Chimilamawe Factory Limited is a local Malawian Company engaged in the production of plastic shoes meant for the local market. Their Finance Director has advised senior management to borrow US$1.0 million loan for scaling up operations from your bank. Provide the necessary advice to the company.

*(6 marks)*

(**Total 20 marks)**

**END OF EXAMINATION PAPER**