

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

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

**Date: Tuesday, 15th May 2018**

**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**

1. Briefly explain the basis for international trade as argued by the following trade theories.
2. Mercantilism Theory *(3 marks)*
3. Comparative Advantage Theory *(3 marks)*
4. Heckscher-Ohlin Trade Theory *(3 marks)*
5. Kenya and Botswana both produce tea and copper. The table below indicates the units of diamond and tea produced per one-man hour of work.

|  |  |  |
| --- | --- | --- |
|  | **Kenya** | **Botswana** |
| **Copper** | 2, 000 | 500 |
| **Tea** | 1, 200 | 800 |

1. Which country has absolute advantage in production of tea and copper? Why? *(2 marks)*
2. Which country has comparative advantage in production of tea and copper? Why? *(4 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Briefly explain the difference between the fixed forward foreign exchange contracts and the option forward foreign exchange contracts. *(4 marks)*
2. Thathwe Oil Company (TOC) is in the process of importing petrol and diesel fuel from Kuwait Puma Oil. On 15th January, the Puma sent a Proforma Invoice to TOC of US$100, 000 for the fuel and the exchange rate was K712/US$1. Fuel took 30 days to arrive in Malawi on 14th February when the exchange rate was K732/US$1.
3. Show the level of foreign exchange rate exposure that TOC faced at the end of this transaction. *(3 marks)*
4. Advise **two** major ways that TOC can use to hedge itself from such exchange rate exposure to avoid loss and for each explain how they can do it.*(6 marks)*
5. Identify **two** parties to a demand guarantee in international trade finance transactions. *(2 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Incoterms provide a set of international rules for interpretation of most commonly used terms in foreign trade with the view removing uncertainties in international trade transactions. Explain what the following incoterms means as per incoterms 2000.
2. FCA *(1 mark)*
3. FOB *(1 mark)*
4. CFR *(1 mark)*
5. DAF *(1 mark)*
6. DDU *(1 mark)*
7. Njuli Quarry Crushers Limited (NQCL) is a growing quarry stone mining company and would like to expand its operations to Machinga to cater for the eastern region of Malawi. However, the expansion demand new machinery but the company do not have enough cashflow to meet the required expansion. The Board of directors and Management met and have decided to identify an import credit line.

**Required**

Advise the company on how they can acquire the equipment using the following:

1. Supplier Credit *(5 marks)*
2. Buyer Credit *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Briefly explain the difference between the following terms as used in structured trade finance:
2. Pre-shipment finance and post-shipment finance *(2 marks)*
3. Acceptance credit arrangement and avalisation *(2 marks)*
4. Explain how purchase order financing works for any business engaged in imports. *(11 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Explain the difference between the following contracts in international trade:
2. Consignment contract and counter-trade contract. (4 marks)
3. Switch trading contracts and buy-back contracts. *(4 marks)*
4. Joel would like to start a business as an exporter of groundnuts to the European Union countries. You have a business consulting firm and Joel has decided to get advice from your organization before he proceed to start the export business. He has been informed that one of the risk that exporters expose themselves to is default or delay in payment. Advise Joel on any **three** methods that as an exporter he can use to protect his business from non-payment risk. *(12 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Documentary collection is a method of payment used in international trade whereby the importer entrusts the handling of commercial and financial documents to banks and gives instructions concerning the release of these documents. This is done using either Documents Against Payments or Documents Against Acceptance:
2. Explain briefly **two** disadvantages of using Documents Against Acceptance to an export. *(4 marks)*
3. Briefly explain **two** advantages of using Documents Against Payments to an importer. *(4 marks)*
4. Nyasa Beverages Limited (NBL) is in the process of shipping processed tea to UK based Hansen Enterprises Limited (HEL) and the two parties have agreed to use Documentary Collection in this transaction. NBL is represented by National Bank of Nyasa (NBN) while FN Bank is the Bank in UK involved in the transaction.
5. Identify the **four** parties involved in this documentary collection transaction.  *(4 marks)*
6. Describe the *modus operandi* from the point where NBL and HEL signed the sales contract to payment is done indicating what happens at each step. Draw a diagram to illustrate the whole process and label it properly. *(8 marks)*  **(Total 20 marks)**

**QUESTION 7**

1. Define documentary credits and explain any **two** uses of documentary credits in international trade financing.  *(5 marks)*
2. A Malawian incorporated company Wali Enterprises is in the process of importing maize from Green Produces Limited of Zambia. However, Green Produce Limited has requested that a Letter of Credit be submitted before the company ships the maize to Malawi. It further requires that the Letter of Credit should be clear as to whether it is irrevocable, confirmed and special clauses type.
3. Advise Wali Enterprises on the **three** types of credits as described in the statement above. *(9 marks)*
4. When Wali Enterprise request any bank to issue letter of credit, the bank insisted that Wali Enterprises sign an indemnity form. List any **five** terms/conditions that are included in this indemnity form and explain why the bank insisted. *(6 marks)*

**(Total 20 marks)**

**QUESTION 8**

Most countries that engage in international trade impose some exchange control regulations and Malawi is not an exceptional.

1. Explain any **four** possible negative implication of applying the exchange control regulations that are too restrictive. *(8 marks)*
2. Takula is planning to export cowpeas to India and the consignment is worth US$10, 000. The exports’ foreign exchange control is done using CD 1 form. Explain to Mr Tukulu the entire procedure that need to be followed to ensure that the exchange control procedure has been properly followed. *(12 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**