

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TREASURY MANAGEMENT 2 (IOBM – AD309)**

**Date: Friday, 3rd May 2013**

**Time Allocated: 3 hours (13:30 – 16:30 pm)**

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

**SECTION A (60 MARKS)**

**QUESTION 1**

1. Briefly explain the significance of the following terms in the Commodity Markets:-
   1. Bid bonds *(2 marks)*
   2. Performance bonds  *(2 marks)*
   3. Letters of Credits *(2 marks)*
2. Distinguish between a Base Currency and Counter Currency and give examples to support your answer. *(4 marks)*

1. Define a Cross Exchange rate. *(1 mark)*
2. Given that GBP/USD=1.6450/1.6455and USD/ZAR=8.4950/8.5150, what is the GBP/ZAR rate?  *(2 marks)*
3. What is the GBP/AUD Cross rate given that GBP/USD = 1.5950/55 and AUD/USD = 0.5890/00? *(2 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Jombo Bank issues a primary Certificate of Deposit (CD) of MWK5, 000,000.00 to Isaac Phiri at a rate of 28.0 % for 273 days. Calculate the maturity value of the CD. *(2 marks)*

On its daily CD screen, Jombo Bank displays the following rates:-

**Bid Offer**

**6 months** 29.0% 23.0%

**9 months** 31.0% 22.0%

1. Why does the Bank show a higher bid rate than the offer rate? *(5 marks)*

1. Suppose that in 2 (a) above Isaac Phiri decides to sell the CD to Thofu Bank after 91 days. The following is the CD screen of Thofu Bank on the day of trading of the CD.

**Bid Offer**

**3 Months** 30.0% 25.0%

**4 Months** 31.0% 25.75%

**6 Months** 33.0% 27.25%

**Required:**

Calculate the secondary market proceeds of the CD.  *(8 marks)*

**QUESTION 3**

1. In its yearly statistical bulletin for 2011, the Reserve Bank of Kawanda released the following short term money market yields for different tenors

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Yield | 18% | 17.00% | 16% | 15.50% | 13.90% | 13% |
| Tenor | 30 | 60 | 91 | 182 | 273 | 365 |

**Required:**

Sketch a yield curve for the above statistics and illustrate the results.  *(4 marks)*

1. Contrast between a Clean Price and Dirty Price of a bond. *(2 marks)*

1. A corporate bond has a coupon rate of 18.0% per annum and pays interest twice a year, on the 30th of June and 30th December. A 2 year bond for MWK20, 000,000.00 [par value](http://en.wikipedia.org/wiki/Par_value) is settled on 30th June 2012 for a price of 87.25.

1. Calculate the accrued interest on 27 September 2012. *(4 marks)*
2. Calculate the dirty price of the said bond on 27 September 2012. *(2 marks)*
3. Establish the total cost of the bond on the same date. *(3 marks)*  **(Total 15 marks)**

**QUESTION 4**

1. Define a Foreign exchange Swap *(2 marks)*
2. On 3rd June 2012, Jombo Bank entered into a Forex Swap Agreement of EUR for USD with Bwengu Bank to mature on 04 July 2012. Given that the EUR interest rate is 4.5 % and USD interest rate is 2.5 % and that the current Spot rate is 1.3585, calculate the Forex Swap points. *(7 marks)*

**Use the following formulae and adjust all your calculations to four decimal places:-**

1. Explain the role of Speculators and Arbitrageurs in the Foreign Exchange Markets.*(4 marks)*
2. Mention **two** functions of foreign currency swaps. *(2 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

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

**QUESTION 5**

Discuss in detail the Country Risk Management Process, clearly giving examples to its relevance to a firm of your choice in Malawi. **(Total 20 marks)**

**QUESTION 6**

1. Mention **two** commonly traded Government Securities on the Malawi money market. *(2 marks)*

1. If the 182 days GBB LIBOR rate is 9.5% and the 365 days GBP LIBOR rate is 11.25 %, calculate the 6 by 12 FRA rate.  *(4 marks)*

**Use the following formulae and adjust all your calculations to four decimal places:-**

1. What are the **two** major functions of FRAs in treasury management? *(2 marks)*
2. Distinguish between Short-term, Medium-term and Long-term Money market securities. *(3 marks)*
3. Discuss the **three** major factors affecting Country risk. *(9 marks)*

**(Total 20 marks)**

**QUESTION 7**

The current Chairman of the Common Market for Eastern and Southern Africa (COMESA) of which Malawi is a member has proposed that the member countries should adopt an identical currency for its trading operations in the next two years. In your opinion, why should Malawi join this arrangement? Further discuss your fears for not joining this arrangement. **(Total 20 marks)**

**QUESTION 8**

1. Contrast between Devaluation and Depreciation of a Currency. *(4 marks)*
2. The Malawi Government adopted a Free-floating Exchange rate regime on 7th May 2012 and with it came a lot of economic hardships to the importing sector and the common Malawian. The President has all along asked Malawians to be patient as things will get worse before they get better. As Chief Economic Advisor to the President you are asked to defend this policy decision in a public debate.

Discuss. *(8 marks)*

1. Determine the relationship between the level of money supply in an economy like Malawi and the exchange rate. *(4 marks)*
2. Describe the major tool that the Reserve Bank of Malawi uses to control the level of money supply in Malawi and how effective it is in achieving the goal.  *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**