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**University Examinations 2014/2015**

FOURTH YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT

**BEC 3406: INTERNATIONAL BANKING**

**DATE: AUGUST, 2015 TIME:** $2 $**HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. (i) Explain the main reasons why banks are involved in International Banking using Equity bank or any other bank as an example. (8 Marks)

(ii) Explain four unique functions performed by international banks that are not common to purely domestic banks. (6 Marks)

(iii) What challenges face international banking institutions? (6 Marks)

1. King is a Kenyan importer based in Kisumu who desires to do business with one, Rani a Ugandan exporter based in Fort-Portal Uganda. Because of the distance between the two, it is not possible to simultaneously hand over goods with one hand and accept payment with the other. King the importer would prefer the arrangement where he receives the goods first and then pays for them. At the same time, Rani the exporter prefers that she is paid first for the goods before exporting. Over the last two weeks King and Rani have been trying to unravel the fundamental dilemma of their unwillingness to trust a stranger in a distant foreign land.

Required:

1. Explain how an international bank can address this international trade dilemma.(4 Marks)
2. List the advantages of the three major instruments that are used by international bank to address this international trade dilemma. (6 Marks)

**QUESTION TWO (2O MARKS**)

1. Explain the major risks in foreign exchange dealings. (8 Marks)
2. What are some of the strategies that the Central Bank can undertake to stem volatility of currency exchange rates? (6 Marks)
3. Briefly explain:
4. Euronotes (3 Marks)
5. Money Laundering (3 Marks)

**QUESTION THREE (20 MARKS)**

1. Discuss any four main provisions or regulatory requirements under Basel I,II, and III (10 Marks)
2. International banks are involved in sovereign lending. The amounts involved are quite huge and the duration of loans are often quite lengthy. Discuss the main principles that MUST be followed in sovereign lending. (10 Marks)

**QUESTION FOUR (20 MARKS)**

Serikari a payee as presented a bank acceptance with a face value of Kshs. 400,000 and a three months maturity period to Kahuni corp, an international bank. The bank charges a commission of 2% per year contemplating discounting the acceptance.

1. Calculate;
2. The amount in shillings of bank’s acceptance commission. (2 Marks)
3. The amount in shillings of bank’s discounting commission (2 Marks)
4. The amount in shillings Serikari will receive from the above transaction(3 Marks)
5. The annualized total cost of finance (4 Marks)
6. Kambuni a Kenyan Sand maker have estimated the returns from their investment in Kenya for the next year. The estimate is based on different outcomes. The Somalis consulate in Kenya made a presentation showing investment opportunities in Somalia that Kambuni can pursue.

|  |  |  |
| --- | --- | --- |
| Country | Kenya  | Somalia |
|  | Returns | Returns |
| Rainy | 10% | 2% |
| Sunny | 12% | 14% |
| Cloudy | 8% | 14% |

Assuming both rainy and sunny outcomes to be equally likely:

1. Calculate the expected returns in the two countries. (2 Marks)
2. Calculate the risk on investment returns in the two countries using the standard deviation.

(4 Marks)

1. Suppose Kambuni splits the investments into two investing half in each country, calculate the resulting Returns and risk. (3 Marks)

**QUESTION FIVE (20 MARKS**)

Discuss the difficulties that may be faced in regulating International banks. (20 Marks)