

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

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

**Date: Tuesday, 13th November 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. Assume that Barclays Bank London has a reciprocal correspondent banking relationship with New Finance Bank Malawi. Describe what sort of accounts the two banks would hold against each other and for what purpose? *(5 marks)*
2. A customer who holds a Savings Account with First Bank Malawi bought USD37,500 at an exchange rate of MK733/USD on 26 February 2018. Given the information in the table below, determine the Balance Sheet position of the Bank a day later.

*(2 marks)*

|  |  |
| --- | --- |
|  | 25-Feb-18 |
| **Total Deposits** | **463,879,512** |
| Current Accounts | 78,562,456.00 |
| Savings | 65,998,723.00 |
| Call Accounts | 29,800,000.00 |
| Fixed deposits | 10,565,000.00 |
| FCDA | 278,953,333.00 |

1. Explain in detail **two** reasons why exchange rate control has had a negative effect on the economy of Malawi. *(4 marks)*
2. Give advice to an importer on the use of Letters of credit method of payment.  *(4 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Discuss in detail **two** pros and **two** cons the customer could face by engaging into a Forward Foreign Exchange Contract.*(8 marks)*
2. Explain to your customer what a Documentary Collection is and discuss the **three** major distinct steps that the Collection undergoes in order for a transaction to be completed. *(7 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Define the incoterms below in terms of the full name and an understanding of the different actions to be taken either by importer or exporter.
2. DAF *(2 marks)*
3. CPT *(2 marks)*
4. DEQ *(2 marks)*
5. FAS *(2 marks)*
6. CFR *(2 marks)*
7. Define the following SWIFT message types used in Letters of credit and guarantees.
8. MT707 *(1 mark)*
9. MT720 *(1 mark)*
10. MT734  *(1 mark)*
11. MT742 *(1 mark)*
12. MT767 *(1 mark)*

**(Total 15 marks)**

**QUESTION 4**

1. In an effort to sensitize customers about foreign exchange risks your bank has organized a trade finance clinic in which you have been asked to speak about measures that can be used to mitigate against foreign currency exposure.

**Required**

Elaborate **four** of these key measures. *(12 marks)*

1. Briefly explain what Avalisation is. *(3 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Sovereign states normally institute government regulations which may cause obstacles for importers and exporters to trade freely.

**Required**

Using Malawi as an example, demonstrate how these regulations have hampered free trade.

**(Total 20 marks)**

**QUESTION 6**

The new UCP 600 looks and reads very differently from its predecessor UCP 500. One obvious feature is that it has fewer articles - thirty-nine as compared with forty-nine. The new UCP 600 encompasses five major changes and seven minor ones.

**Required**

Assuming that your bank has just re-engaged a Retiree who left the Bank industry before July 2007, take time to educate him about **five** major changes and **five** minor changes made on the UCP600. **(Total 20 marks)**

**QUESTION 7**

1. One of your export customers would like to understand the risks involved in cross border trade and the type of insurance that can mitigate those risks.

**Required**

Enlighten the customer in terms of the risks that are normally covered under the export credit insurance policy. *(10 marks)*

1. Why is forfaiting beneficial to the exporter? Discuss **five** points. *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

Discuss the Heckscher-Ohlin trade theory and articulate how it applies to the Malawi economy today.

**(Total 20 marks)**

**END OF EXAMINATION PAPER**