Great Zimbabwe University

SCHOOL OF LAW AND BUSINESS SCIENCES

DEPARTMENT OF ECONOMICS AND FINANCE

BACHELOR OF COMMERCE	**PART 2 SEMESTER 1**
COURSE	**TREASURY MANAGEMENT**
CODE	**HBF 213**
DATE	
DURATION	**3 HOURS**

MAIN EXAMINATION

INSTRUCTION TO CANDIDATES

1. **THE PAPER COMPRISES 5 QUESTIONS.**
2. **YOU ARE REQUIRED TO ANSWER ANY FOUR QUESTIONS.**
3. **BEGIN THE ANSWER TO EACH QUESTION ON A FRESH PAGE OF THE ANSWER BOOKLET.**
4. **NON-PROGRAMMABLE SCIENTIFIC CALCULATORS ARE ALLOWED INTO THE EXAMINATION.**
5. **CANDIDATES WILL OBTAIN CREDIT FOR SHOWING ALL WORKINGS.**

QUESTION 1

a) Explore the factors that have shaped the evolution and development of treasury management within the banking sector. [8 marks]

b) List four specific tasks commonly handled by a bank's back-office related to treasury/trading activities. [4 marks]

c) Briefly explain the importance of each of those tasks. [4 marks]

d) Provide compelling reasons why the practice of tape-recording deals is considered essential in treasury operations. [4 marks]

e) Analyze the critical processes that require segregation within a treasury function of a bank. [5 marks]

[TOTAL 25 MARKS]

QUESTION 2

a) The simple interest on a loan is 9.60% compounded quartely. What is the effective rate of interest? [4 marks]

b) If an investment pays back $1 350 455 at the end of five years from an initial deposit of $1 000 000, what annual yield has been earned? Assume no interest payments during the term. [4 marks]

c) You deposited $20 000 in a fixed deposit account earning 8% p.a. on 1 March 2024. Calculate the maturity value of your investment on 30 September 2024 when the compounding frequencies are as follows:

   i. Quarterly. [2 marks]

   ii. Continuous. [2 marks]

   iii. Daily. [2 marks]

d) What is the present value of $30 000 received in three years at a fixed interest rate of 8%, assuming:

   i. Annual discounting. [3 marks]

   ii. Quarterly discounting. [3 marks]

e) Suppose a $1 000 000 mortgage is to be paid off in equal monthly instalments over 25 years. The rate of interest is expected to remain constant at 20%. How much should be paid monthly to pay-off the debt? [5 marks]

[TOTAL 25 MARKS]

QUESTION 3

a) Define the foreign exchange market, emphasizing the characteristics that distinguish it from other financial markets. [5 marks]

b) Identify five key participants in the foreign exchange market. For TWO of them, briefly describe their motivations for participating in the FX market. [10 marks]

a) A foreign exchange trader with a local bank took a short position of £1 000 000 when the $/£ exchange rate was 1.35. Subsequently, the exchange rate has changed to 1.41. Is this movement in the exchange rate good from the point of view of the position taken by the trader? By how much has the bank's liability changed because of the change in the exchange rate? [5 marks]

b) ABC bank is quoting the following exchange rates against the dollar for the Swiss franc and the Australian dollar:

SFr/$ = 1.5960/70
A$/$ = 1.7225/35

What is the A$/SFr cross-rate? [5 marks]

[TOTAL 25 MARKS]

QUESTION 4

a) A three-month CD is issued on 6 September 2023 and matures on 6 December 2023 (maturity of 91 days). It has a face value of ZWL20 000 000 and a coupon of 5.45%.
   i. What is the maturity value of the CD? [3 marks]
   ii. What is the secondary market proceeds on 11 October if the yield to maturity is 6%? [4 marks]

b) On 18 November 2023 the yield on a short three-week paper is 5.25%. What rate of return is earned from holding the CD for the 38 days from 11 October to 18 November? [5 marks]

c) A 91-day $100 Treasury bill is issued at 4.75%. What is its issue price and equivalent yield? [6 marks]

d) Describe three key features of commercial paper. Explain how at least one feature differs from similar short-term debt instruments (e.g., certificates of deposit). [5 marks]

e) Explain why a Treasury bill is regarded as a risk-free asset. [2 marks]

[TOTAL 25 MARKS]

QUESTION 5

a) Suppose that a bank portfolio manager has a daily VaR equal to USD1 million at a 99 per cent confidence interval. Interpret this VaR. [4 marks]

b) Outline the two fundamental properties of liquidity and elucidate the forms of liquidity risk associated with each property. Provide clear examples to illustrate how these risks manifest in banking operations. [6 marks]

c) Examine various techniques employed by banks to manage liquidity risk. Evaluate the advantages and disadvantages of each liquidity management tool discussed. [15 marks]

[TOTAL 25 MARKS]

~ END OF EXAMINATION ~