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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN BANKING AND FINANCE
DBF 1107: FINANCE INTERNATIONAL TRADE: PAYMENTS AND SERVICES

Date: 17TH APRIL 2023

Time: 11:30AM-1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Define the term international trade” (2 Marks)
- b) Differentiate between the internal business environment and external business environment. (4 Marks)
- c) List alternative options that a business has to consider before going international. (4 Marks)
- d) Highlight three differences between domestic business and international business. (6 Marks)
- e) Describe three types of exposure that occur in foreign exchange transactions. (6 Marks)
- f) Differentiate between a “greenfield investment” and an “acquisition” as used in international trading (4 Marks)
- g) Highlight any four challenges that businesses experience when they practice cross-border trade. (4 Marks)

QUESTION TWO (20 MARKS)

- a) International trade poses a number of risks caused by payment uncertainties. Explain five methods of payments commonly preferred in international transactions that protect traders. (10 Marks)
- b) Trade finance offers international businesses a chance to take care of their working capital solutions. Highlight any five benefits a business would enjoy by using trade finance. (10 Marks)

QUESTION THREE (20 MARKS)

- a) Governments impose barriers on International Trade for various reasons. Highlight any five (5) reasons for Government’s Protection of Domestic Business Activities. (10 Marks)
- b) Companies trade internationally via different means or participation strategies which differ in the degree of risk they present, the control and commitment of resources they require, and the return on investment they promise. Explain the following concepts with regards to methods of trading.
 - i. Exporting (2 Marks)
 - ii. Licensing (2 Marks)
 - iii. Franchising (2 Marks)
 - iv. Turnkey projects (2 Marks)
 - v. Strategic Alliance (2 Marks)

QUESTION FOUR (20 MARKS)

- a) A major drawback of forward exchange contract is that it is a binding contract that must be performed. Currency options overcome this problem since they are agreements whereby a company buys the rights (but not the obligation) to buy or sell a certain quantity of a specified currency at a stated rate of exchange and at a specified future time. Differential between call option and currency option (2 Marks)
- b) Any business operating internationally has to consider and know how to deal with foreign exchange matters. Highlight and explain four ways that foreign exchange rates can affect a business. (8 Marks)
- c) Due to the nature of their business, international firms experience a different set of risks compared to domestic firms. Highlight any five (5) risks specific to international firms. (10 Marks)

QUESTION FIVE (20 MARKS)

- a) Highlight five advantages accrued by a multinational firm from engaging in international trade. (10 Marks)
- b) Bonds indemnify a lender from loss by acting as a security. Highlight and explain five (5) types of bonds used as security. (10 Marks)