

# Df323 questions essay



**ASSIGN  
BUSTER**

1 Question One (a) What do you understand by the term Foreign Exchange Market? (b) Does Tanzania need to have a foreign exchange market? Explain. (c) Identify and explain the role of each agent who is participating in the foreign exchange market. Question Two (a) Define and give an example of (i) Direct quote between Tanzanian shilling (TZS) and Kenyan shilling (KES), where Tanzania is designated as a home country. (ii) Indirect quote between Tanzanian shilling (TZS) and Rwandese Franc (RWF), where Tanzania is designated as a home country. b) Toward the end of 1999, the central bank (Reserve Bank) in Zimbabwe stabilized the Zimbabwe dollar, the Zim for short, at Z\$38/USD and privately instructed the banks to maintain that rate. In response, at the end of 1999, an illegal market developed wherein the Zim traded at Z\$44/USD. Are you surprised at rumours that claim corporations in Zimbabwe were “ hoarding” USD200 million? Explain. Question Three What are the advantages and disadvantages of forming a joint venture to serve a foreign market compared to serving that market with a wholly owned production subsidiary?

Question Four (a) Distinguish between the following pairs of terms: i. Competitive advantage and Comparative Advantage ii. Economies of Scale and Economies of Scope (b) What are five key limitations to the theory of comparative advantage? Question 5 XYZ Breweries of Kilimanjaro, Tanzania, has received an order for 10, 000 cartons of beer from KJ Importers of Kigali, Rwanda. The beer will be exported to Rwanda under the terms of a letter of credit issued by a Kigali bank on behalf of KJ Importers.

The letter of credit specifies that the face value of the shipment, \$720, 000, will be paid 90 days later after the Kigali bank accepts a draft drawn by XYZ

Breweries in accordance with the terms of the letter of credit. The current discount rate on three-month banker's acceptances is 8% per annum, and XYZ Breweries estimates its weighted average cost of capital to be 20% per annum. The commission for selling a banker's acceptance in the discount market is 1.2% of the face amount. a) How much cash will XYZ Breweries receive from the sale if it holds the acceptance until maturity? ) Do you recommend that XYZ Breweries hold the acceptance until maturity or discount it at once in the U. S. banker's acceptance market? Question 6

Suppose that you have one domestic production facility that supplies both the domestic and foreign markets. Assume that the demand for your product in the domestic market is  $Q = 2,000 - 3P$  and in the foreign market, demand is given by  $Q^* = 2,000 - 2P^*$ . Assume that your domestic marginal cost of production is 600. If the initial real exchange rate is 1, (a) What are your optimal prices and quantities sold in the two markets? DF 323 : REVIEW QUESTIONS