CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION

MBAD /MSCF 817 835: INTERNATIONAL FINANCE

STREAMS: MBAD Y2S1 **TIME: 3 HOURS**

DAY/DATE : THURSDAY 15/07/2021 **8.30 A.M – 11.30 A.M**

INSTRUCTION

Attempt all questions

QUESTION ONE

(a) Describe any four methods of financing trade that could be adopted by a multinational corporation (MNC) or a country. [6 marks]

(b) An arbitrageur is considering the following exchange rate quotation.

United state Dollar ($)/ British pounds (£)	1.5267 – 1.5272
Euro ($)/ United State Dollar ($)	1.0240 – 1.0245
Euro ($) /British pounds (£)	1.5540 – 1.5580

Show how the exchange rates can yield an arbitrage profit. Assume you have $50,000 with which to conduct the arbitrage. [6 marks]

(c) Explain any four reasons why countries use counter trade as a means of trading internationally. [6 marks]

(d) Distinguish between comparative advantage and absolute advantage as adopted in international trade. [2 marks]

QUESTION TWO

(a)Avenue ltd expects to receive Naira 750,000 from a customer in Nigeria in six months' time. The spot exchange rate is Naira 2.349 per ksh 1 and the six – month forward rate is Naira 2.412 per ksh 1. The following commercial interest rates are available to the company;

Naira 4.0% - 8.0 % per year
Ksh 2.0 % - 3.5 % per year
The company does not have any surplus cash to use in hedging the future Naira receipt.

Required:

Evaluate whether a money market hedge or forward market hedge would be preferred to the company. [10 marks]

(b) Explain any three strategies that a multinational corporation could adopt to hedge against economic risk exposures. [6 marks]
(c) Explain any four functions performed by international bank to their clients. [4 marks]

QUESTION THREE

(a) You are the treasurer of a US company that has exported goods to the UK and is due to receive a payment of £ 1,625,000 in three months time. The exchange traded foreign currency option prices for dollar /sterling contracts in three months; time are as follows:

Exercise price ($)	Option prices are in cents per £	
	Calls	Puts
1.90	5.55	0.42
1.95	2.75	4.15
2.00	0.25	9.40

The current spot exchange rate is \$1.9404 - \$1.9425 /£ and the forecast spot rate in three months' time is \$ 1.8950 - \$ 1.8970 /£. The contract size is £ 12,500.

Required:

(a) Calculate and explain whether you would hedge the sterling exposure. [10 marks]

(b) Prepare a sample current account for your country revealing the key items included in such account for a given year. [5 marks]

(c) Write short notes on the international bond market. [5 marks]

QUESTION FOUR

(a) A company's treasurer is due to pay a US supplier \$ 12 million on 20 November. The treasurer has decided to use December Euro futures contracts to hedge on 15th October.

The spot and relevant futures prices in US\$ PER Euro are as follows:

Date	Spot	Future price
15 October	1.3300	1.3350
20 November	1.3190	1.3240

The contract size is € 200,000.

Required:

Amount payable based on currency futures hedge. [10 marks]

(b) Excel limited, a company based in Kenya intends to invest in the Gambia. The project will entail an initial outlay of 250 million Gambian Dalasi (DS). The project is expected to generate the following cash flows after tax but before depreciation over its five year life.

Year	Cash flows (DS millions)
1	70

2	90
3	100
4	120
5	80

The current spot rate is Gambian Dalasi 2.10/ ksh. The risk free rate in Kenya is 10% and the risk free rate in the Gambia is 6%. Excel's ltd required rate of return on the project is 16%.

Required:

Advise the management of excel ltd on whether to undertake the project. [10 marks]

QUESTION FIVE

(a) Discuss any four benefits that would accrue to an investor investing in the international equity markets. [6 marks]

(b) Afri Q ltd is a Kenyan based multinational with affiliates in Rwanda, Uganda, Ethiopia and Tanzania. The following were the cash flow for the month of June 2021.

	Disbursements ksh '000'			
Receipts ksh '000'	Uganda	Tanzania	Uganda	Ethiopia
Uganda	-	6,000	5,000	2,000
Tanzania	2,000	-	4,000	2,500
Rwanda	2,500	4,000	-	-
Ethiopia	3,000	5,000	-	-

Required :

Illustrate and explain how the affiliates could benefit from multilateral netting. Determine the savings from multi –lateral netting assuming that the foreign exchange transactions costs the company 1% of the transaction value. [10 marks]

(c) Kenyan firm recently bought some machinery from a US supplier for US $ 250,000 with payment due in 3 months' time. The exchange rates quotation details are as follows:

Spot US $/ksh	0.0778 – 0.0789
Three month forward	0.21 – 0.18 cents

Required:

Determine the amount payable if a forward contract is used. [4 marks]
