CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 434: INTERNATIONAL FINANCE

STREAMS: BCOM (Y4S2) (ODEL) **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 07/08/2024 **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS

- **Attempt Question One and any other two questions**

Question one

a) International trade requires financing of different types. Discuss 5 popular methods of financing international trade. (10 marks)

b) Differentiate between international finance and domestic finance (8 marks)

c) Kibwezi Ltd constructed a manufacturing plant in Ghana. The construction cost 8 billion Ghanaian cedi. The company intends to leave the plant open for three years. During the three years of operation, cedi cash flows are expected to be 3 billion cedi, 3 billion cedi, and 2 billion cedi, respectively. At the end of the third year, the company expects to sell the plant for 5 billion cedi. The company has a required rate of return of 18 percent. The current spot rate is cedi 8,700 /KES 1 and the cedi is expected to depreciate by 5 percent per year. Required: Advice the management (12 marks)

Question two

a) You have been provided with the following series of exchange rates

1$ SwFr 1.6639 - 1.6646

1€ = $0.9682-0.9686

1 € = SwFr 1.6410 - 1.6423

Assume that you have $2,000,000 in cash

Required:

Demonstrate how you could take advantage of these exchange rates to obtain arbitrage gain

[7 marks]

b) Most developed financial markets are considered to be integrated. However, it is sometimes claimed that international financial markets are not integrated because of various impediments to capital mobility. Briefly, explain any four impediments to capital mobility in international financial markets. (8 marks)

Question three

a) Tabitha Wanjiku specializes in forex trading. She is considering the following quote from two different banks located in different locations:

	Real Bank		Safe bank	
Currency quotes	Naira/KES			
	Bid	Ask	Bid	Ask
	0.8226	0.8293	0.8361	0.8395

Required: Arbitrage profit, if any, assuming Tabitha has Naira 20,000 to invest. (8 marks)

b) Solar tech is expecting a receipt of $900,000 in 6 months' time. The company treasury has obtained the following spot rate $1.6764 - $1.7140

Money market	borrowing p.a	lending p.a
US dollar	6.5%	5%
Sterling	7.5%	

Six months forward rate $1.700 - $1.7040

Expected spot rate in six months $1.7090-S 1.7100

Required: amount receivable (7 marks)

QUESTION FOUR

a) Blessing i s a U.S. multinational firm with headquarters in California's Silicon Valley. It manufactures low-priced quartz watches which it markets throughout North America and Europe. In addition to its manufacturing facilities in California, Blessing has three sales affiliates in Canada, Germany, and the United Kingdom. The matrix below presents a payments matrix for one week during the cash budget planning horizon and summarizes all inter -affiliate cash receipts and disbursements of Blessing.

Cash Receipts and Disbursements Matrix for Classic

($000) Disbursements

Receipts	U.S.	Canada	Germany	U.K.	Total Receipts
U.S.	-	30	35	60	125
Canada	20	-	10	40	70
Germany	10	25	-	30	65
U.K.	40	30	20	-	90
Total Disbursements	70	85	65	130	350

The cost of transferring funds is 2.5 percent of the transaction and it includes transaction expenses and the opportunity cost of funds tied up in inter-affiliate float. Required: Design and determine the savings in case of:

i) Bilateral netting system (4 marks)

ii) Multilateral netting system (3 marks)

iii) In case of no netting (3 marks)

b) What factors would you consider before investing in the emerging stock market of a developing country (5 marks)

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