



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF HEALTH SCIENCES
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
4TH YEAR 2ND SEMESTER 2019/2020 ACADEMIC YEAR
MAIN CAMPUS

COURSE CODE: ABA 419

COURSE TITLE: International Finance

EXAM VENUE:

STREAM: (BBA)

DATE:

EXAM SESSION:

TIME: 2 HOURS

Instructions:

- 1. Answer ALL questions in section A and ANY other 2 questions in section B**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room**

QUESTION ONE (COMPULSORY)

a) Assuming that you have been employed as a financial manager for a company which is planning to source for external funds to finance its operations. Explain any four factors which would influence your decision on whether to choose borrowing in a domestic currency market or in a Euro market. (8 marks)

b) First International Company Ltd, a Kenyan based international company is evaluating an investment in Germany. The project will cost DM 5 million and is expected to produce cash inflow of DM 5 million in year 1 and DM 4 million in years 2 and 3. Assume that the current spot rate is shs.60/DM 1 and the current risk free rate in Kenya is 12.3 % compared to that in Germany of 7 %. The appropriate discount rate for the project is estimated to be 16 % which is Kenyan cost of capital for the Germany project.

Required:

Should First International Company Ltd undertake the project? 12 mks

Explain your answer. 2 mks

c) Distinguish between the following:

i) Spot transaction and a Forward transaction. 4 mks

ii) Euro currency and euro notes 4 mks

QUESTION TWO

a) Discuss **FOUR types of Eurocurrency loans** 6 mks

b) Explain the following the following two basic approaches to forecasting exchange rates:

i) Economic analysis 2 marks

ii) Technical analysis. 2 marks

(c) Discuss on any five factors that may Cause the Cost of Capital for MNCs to Differ from that of Domestic Firms (10 marks)

QUESTION THREE

a) Assuming that you have been employed as finance manager for an international company and you are required to give a summary of a report to the director on factors to consider before choosing an investment vehicle to use for your company.

Required

- i) Propose any four investment vehicles the company can choose for investment 8 mks
- ii) Highlight on any five factors to consider before choosing the best investment vehicles for your company 12 mks

QUESTION FOUR

a) Increased international investment and globalization has resulted in several organizations engaging in corporate alliances and the establishment of several trading blocks. The advent of e-commerce has enabled companies to greatly expand their markets.

Required:

In light of this statement, Identify and elaborate on any six factors that you think may complicate financial management in multi-national firms. (12 marks)

b) ABC Ltd, a UK firm has bought goods from a US supplier and must pay US \$ 4 million in 3 months' time. The company finance director wishes to hedge against the foreign exchange risk and is considering three methods:

- Using the forward exchange contract, lead payment and money market hedge

Annual interest rate and foreign exchange rate are given below:

	US \$		UK £	
	<u>Deposit Rate</u>	<u>Borrowing Rate</u>	<u>Deposit Rate</u>	<u>Borrowing Rate</u>
1 month	7%	10.25%	10.75%	14.0%
3months	7%	10.75%	4.0%	14.25%
Spot rate	£1: \$ 1.8625 – 1.8635			
1 month forward	0.60 – 0.58 premium			
3 months forward	0.0180 – 0.0175 premium			

Required:

Advise the company on the best method to use. (8 marks)

QUESTION FIVE

a), Discuss any five determinants of foreign exchange rates. (10 marks)

b) Discus the purposes of the IMF according to Article one of Agreement of the International Monetary Fund. (10 marks)

