



**JARAMOGI OGINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY  
SCHOOL OF BUSINESS AND ECONOMICS  
UNIVERSITY EXAMINATION  
FOR DEGREE OF BACHELOR OF BUSINESS  
ADMINISTRATION WITH IT  
4<sup>th</sup> YEAR 1ST SEMESTER 2016/2017 ACADEMIC YEAR  
BUSIA LEARNING CENTRE**

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**COURSE CODE: ABA 419**

**COURSE TITLE: INTERNATIONAL FINANCE**

**EXAM VENUE:---**

**STREAM: (BBA – FINANCE)**

**DATE: 20/12/16**

**EXAM SESSION: 2.00 – 4.00 PM**

**TIME : 2.00 HOURS**

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**Instructions:**

- 1. Answer question 1 (compulsory) and ANY other 2 questions.**
- 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

Kenyan company with 15% cost of capital wants to invest in Democratic Republic of Congo. The project cost is FR 200 million. It is expected to generate 80 million Congo francs per year for three years and will have salvage value of 4 million Congo Francs (FR). The currency spot rate at start was FR = ksh 0.20 The interest rate in Kenya was 8% and in Congo 12%. Assume that funds generated flow in at year end .compute net present value for the project and advice if the project is viable.

(30 marks)

### QUESTION TWO

Mr X expects to produce 1000 bags of wheat in Kenya and sell in Uganda in three months time. Mr X took a futures contract and currency forward contract at ug sh 27,500 per bag and ug sh 28 per one ksh. respectively. Commission on futures contract was 3% and currency 2%. At the time wheat was due for delivery in Uganda the market price in Uganda was sh 26,500 per bag and in Kenya was sh 1040 per bag. Spot exchange rate was ug sh 25 for one ksh.

Required determine the best pay off. For sell in Kenya or Uganda.

(20 marks)

### QUESTION THREE

a).If the financial markets are perfectly competitive, the Kenyan shilling rate is above Tanzanian shilling in loan market, what would you consider in order to borrow money in Kenya and invest in Tanzania.

b) What makes Euro bond popular financing instruments to developing countries?

(20 marks)

### QUESTION FOUR

Long hedge, short hedge, futures contract, and foreign exchange parity are principles applicable in international finance. Define each and demonstrate how it can apply in foreign exchange market.

(20 marks)

### QUESTION FIVE

a).What is foreign exchange exposure? Explain the causes of various exposures and how they could be mitigated.

(10 marks)

b) What is financial innovation and what motivates the innovation.

( 10 marks)