

W1-2-60-1-6

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**THIRD YEAR SUPPLEMENTARY/SPECIAL EXAMINATION FOR**

**THE DEGREE OF BACHELOR OF COMMERCE**

**HBF 2401: INTERNATIONAL FINANCE**

**DATE: JULY 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

1. What are the limitation of law of comparative advantage? [2 marks]
2. State any TWO disadvantages of International trade. [2 marks]
3. List some of the barriers to a firm that wants to exit a market. [2 marks]
4. What are some of the protectionist strategies put in place by a government

to hinder the operation of comparative advantage. [4 marks]

1. What are …………currency markets? [2 marks]
2. Distinguish between a fixed exchange rate system and floating

exchange rate system. [3 marks]

1. List factors affecting exchange rate system. [5 marks]
2. What do you understand by international fisher effect? [2 marks]
3. According to pecking order, hypothesis funding investment with internal

funds is the choice of management followed by borrowed funds, what would

be the level of dividends for a growing companies. [3 marks]

1. State the factors that affect dividend repatriation policies. [5 marks]

**QUESTION TWO (20 MARKS)**

1. Discuss the factors affecting exchange rate. [12 marks]
2. What are the merits of using a fixed exchange rate? [5 marks]
3. If the direct quote between $ and £ is £1: $1.5 and the inflation rate in UK

is 10%, while inflation rate in US is 6%. Computer the percentage change

in the direct quote and determine the new exchange rate. [3 marks]

**QUESTION THREE (20 MARKS)**

1. XYZ ltd a UK firm has bought goods from UV supplier and must pay in

US dollars $4 million in 3 months. The company’s financial director wishes

to hedge against the foreign exchange risk and is considering three methods:

1. Using forward exchange contract
2. Using the money hedge
3. Using lead payments

Annual interest rates and foreign exchange rates are given below:

|  |  |  |  |
| --- | --- | --- | --- |
| US $ | | UK £ | |
| Deposit Rate | Borrowing Rate | Deposit Rate | Borrowing Rate |
| 1 month 7% | 10.25% | 10.75% | 14% |
| 3 months 7% | 10.75% | 4.0% | 14.25% |

Spot rate £1: $1.8625 - $1.8635

One month forward

3 months forward

Advice the company on the best method to use. [10 marks]

1. In what ways are currently options ………to a company. [10 marks]

**QUESTION FOUR (20 MARKS)**

1. In what ways does international banks assist Multinational Corporations? [7 marks]
2. Discuss the types of Euro currency loans. [6 marks]
3. Flagwaver PC is considering whether to establish a subsidiary in Slovenia

at a cost of £30,000,000. The subsidiary will run for four years and the net

cashflows from the project are shown below:

|  |  |
| --- | --- |
| Year | Net Cashflows (ᵮ) |
| 1 | 4,800,000 |
| 2 | 6,834,000 |
| 3 | 12,600,00 |
| 4 | 12,780,000 |

There is a withholding tax of 10% on remitted profits and the exchange

rate at £1: ᵮ 1.5. At the end of the fourth year, the Slovenian Government

will buy the plant for ᵮ 18,000,000. The later amount can be repatriated

free of withholding taxes.

If the discount rate is 15%, what is the Net Present Value of the project in £. [7 marks]

**QUESTION FIVE**

1. A BC Ltd a US firm has been invited to tender for a contract in Blueland

with a local currency of Blues (B). The company thinks that the contract

should cost £1,850,000 and is prepared to price the contract at £2 million.

The exchange rate for Blues and £ is £1:B2.8

The company therefore bids for B5.6 million. The contract will not be

awarded until six month. A 6 month currency option to sell B5.6 million

at an exchange rate of £1: B2.8 is currently costing £40,000.

ABC limited can either buy the option or enter into a forward contract of

£1: B2.8

Assume that the company fails to win the contract and spot rate in 6 months

is £1: B2.5.

Advice the Company on which alternative is better. [8 marks]

1. Briefly discuss arguments for protectionism in the International trade. [6 marks]
2. The World Trade Organization is the global organization dealing with

rules of trade between nations, what are the aims of this organization. [6 marks]