MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

MAIN CAMPUS

ABA 419: INTERNATIONAL FINANCE

Date: 31st July, 2017 Time: 12.00 - 3.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE
- Question one carries 25 marks the rest 15 marks each.

QUESTION ONE (Compulsory)

(a) Discuss the difference between spot and forward foreign exchange transactions in the foreign exchange market. (8mks)

(b) Discuss the factors to be considered in Multinational Capital budgeting decisions (7mks)

(c) Venture International Ltd is evaluating a foreign investment that involves building a plant in the USA costing $100million. The following cash flows have been estimated over the years of the budget.

Year	Cash flow ($million)
1	30
2	40
3	50
4	60

The risk free rate in Kenya is 11% whereas the risk free rate in the US is 6%. The current spot exchange rate is Ksh78 to the dollar. Venture International Ltd requires a return of 15% on projects of this kind.

Required;

Evaluate the projects Net Present Value using the "Home currency Approach" and advise Venture International whether to accept or reject the project. (10mks).

QUESTION TWO

(a) Define the following types of foreign currency risk exposures:

(i) Transaction Exposure (3mks)
(ii) Translation Exposure (3mks)
(iii) Economic Exposure (2mks)

(b) Explain any four strategies that a firm can employ in hedging against foreign currency risk exposure. (7mks)

QUESTION THREE

(a) A wine product is produced in both America and in Canada. Equivalent bottles of American wine sells in America for USD 22 and in Canada for C$34

(i) According to the PPP what should be the USD/C$ spot rate of exchange? (3mks)

(ii) If the price of American wine is expected to rise to USD27 over the next year, what is the price of comparable Canadian wine expected to be during the same period (5mks)

(a) On January 18th, 2000 a Kenyan firm purchased 3million French francs (Ff)to buy French Bonds, the following month. If the firm using euro dollar market to access USD had to convert the USD to French francs, the spot exchange rate for the period was 1USD/154.5 Ff.

Required;

(i)How many USD was required for the spot exchange rate to purchase Ff 3million? (2mks)

(ii)Assume the Kenyan firm does not buy the French bonds and had to convert back to USD after one month during which the French franc had depreciated to USD /142Ff. What was the value of the new USD equivalent? (3mks)

(iii). How could the Kenyan Company have hedged against possible exchange rate risk? (2mks)

QUESTION FOUR

(a) Critically discuss the major corporate motives for going international (9mks)

(b) Discuss the factors which influence the decision on whether to borrow in a domestic currency or in a foreign currency (6mks)

QUESTION FIVE

(a) In the recent past, the government has been aggressively wooing multinational corporations to come and set up shop in Kenya. Critically analyse the key decision areas a financial analyst would have to advise a company that is considering making direct investment in Kenya. (9mks)

(b) Highlight the potential advantages and disadvantages for the host country of Foreign Direct investment (FDIs) by multinational companies. (6mks)

QUESTION SIX

(a) Explain each of the following terms briefly:

- (i) In –the- money Currency Put Option
- (ii) Currency Coupon Swaps
- (iii) International Fishers Effect (Fisher Open)
- (iv) The International Capital Asset Pricing Model (ICAPM) (8mks)

(b) Discuss the challenges of listing a firms stock in foreign stock markets and the advantages this has to the firm and its shareholders (7mks)