KENYATTA UNIVERSITY

SUPPLEMENTARY/SPECIAL EXAMINATIONS 2023/2024

EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BAC 820: INTERNATIONAL FINANCE

APRIL/MAY, 2024 **TIME: 3 HOURS**

INSTRUCTIONS:

- **Answer ALL questions**
- **Show all your workings**
- **Marks allocated are shown at end of each question.**

Question One (15 marks)

a) Explain international financial system to global economics. [5 marks]\

b) Explain methods countries should use to manage volatility in money markets. [5 marks]

c) Explain functions of African Development Bank (AfDB) to African economies. [5 marks]

Question Two (15 marks)

a) Explain methods used by exporting companies to reduce export credit risk. [4 marks]

b) Explain three theories of international trade. [6 marks]

c) Explain difficulties in achieving free trade in Africa. [5 marks]

Question Three (15 marks)

a) Distinguish between forward contracts and futures contracts. [2 marks]

b) Explain five factors affecting the value of an option. [5 marks]

c) Rift Valley Limited a Kenyan Company has imported goods from USA customer worth £10,000,000. Amount payable 6 months from now. The spot rate is KES 152/$1 and the Kenya Shilling is expected to depreciation by 10% within the period.

Market information available:

- Option: Exercise Price KES158/$1 with a premium KES 6.
- Forward contract: Available at a discount of KES 7.
- Futures contract: Contract size KES 200,000 exercise 6 months from now.

Required:

i. Calculate amount payable under options and forward contract. [4 marks]

ii. Develop a hedging efficiency under futures contact. [2 marks]

iii. Which derivative should be used by the firm to hedge foreign exchange risk? [2 marks]

Question Four (15 marks)

a) Explain reasons for development of multinational corporations in developing economies. [4 marks]

b) Explain how macroeconomic factors influence capital flows in and out of economies. [3 marks]

c) Coast Limited a Kenyan firm is evaluating an overseas investment proposal in USA. The project is estimated to have investment cost $3,600 million with expected to cash inflows as flows over its six years.

Years	1	2	3	4	5	6	7
Cash flow $ (million)	1,200	1,300	1,400	1,350	1,200	1,100	1,000

The spot exchange rate is KES 152/SI and local currency is expected to depreciate at 10% per year of the period an the local discount rate is 12% per annum. Working of $400 million introduced in Year 3 and recovered in Year 6. The company is with 30% tax bracket:

Required:

Calculate the NPV of the project using;

i) Home currency approach. [5 marks]

ii) Foreign currency approach [3 marks]