KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BAC 820: INTERNATIONAL FINANCE

DATE: Monday, 12th February 2018 **TIME: 5.30 p.m. - 8.30 p.m.**

INSTRUCTIONS:

ANSWER ALL QUESTIONS

QUESTION ONE (25 MARKS)

a) Explain how expected reviews of international trade treaties likely to affect international trade. (8 Marks)

b) Explain how nations improve their economies through international trade. (8 Marks)

c) Containerization deposit cost is a major problem international trade. Explain how companies in international trade can manage the cost. (4 Marks)

d) Explain exchange rate equilibrium using Mundell Fleming Model. (5 Marks)

QUESTION TWO (25 MARKS)

a) Explain how international banking affects international finance. (6 Marks)

b) Describe instruments of debt used by international banks. (6 Marks)

c) Explain how a national exchange regime affects international financial decisions. (7 Marks)

d) Explain facts affecting foreign exchange movement. (6 Marks)

QUESTION THREE (25 MARKS)

a) Describe three foreign exchange exposures. (6 Marks)

b) Explain three internal techniques of reducing foreign exchange risks. (6 Marks)

c) A Kenyan firm has a tender to supply heavy electricity equipment from United Kingdom. The total cost of the tender is £120,000,000. The equipment is to be supplied immediately with payments to be one year from now. The current market information are as follows:

• Spot exchange rate	KES 138.80/£144.50/£1	
• Annual inflation rates:	UK	Kenya
	8%	15%
Annual interest rates available to machine Manufacturer:		
Borrowing	4%	14%
Lending	3%	8%

Required:

i) Using money market hedge, calculate how you would manage foreign exchange risk. (8 Marks)

ii) The foreign exchange dealer offers the company a forward contract of KES 150.000/£1, expiring 12 months from now, determine potential gain or loss from the contract. (5 Marks)

QUESTION FOUR (25 MARKS)

a) Explain how multinational corporations can mitigate foreign political risks. (6 Marks)

b) Explain how Multinational Corporation would manage global inventories to reduce liquidity risk. (6 Marks)

c) A Kenyan bank has a permit to set a subsidiary in New York. The initial outlay is to cost $40 billion, with additional working capital of $6 billion in year 3. The subsidiary is expected to generate a net cash inflows of $8 billion from year 1 through Year 4; $7 billion from year 5 to year 9; $4 billion from year 10 to infinite period. Other information are as follows:

- Spot rate KES 105.50/$1
- Local inflation 10% p.a.
- Local discount rat 15% p.a.
- Local corporation tax 30% p.a.
- Kenya and USA are in double taxation agreement.

i) Evaluate the project based on local cash flows and foreign cash flows. (10 Marks)

ii) Explain three assumptions you made in your calculations. (3 Marks)