KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2018/2019

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION AND MASTER OF SCIENCE FINANCE PROGRAMMES

BAC 820: INTERNATIONAL FINANCE

DATE: Friday 29th March 2019 **TIME: 5.30p.m -8.30p.m**

INSTRUCTIONS: answer all Questions

QUESTION ONE (15 MARKS)

(a) Explain functions of international banking to international finance. (5 marks)

(b) Explain benefits of using the Euro bonds market to raise funds. (5 marks)

(c) Explain how increase in global interest rates affects international equity markets. (5 marks)

QUESTION TWO (15 MARKS)

(a) Explain current challenges to international trade. (5 marks)

(b) As a chief finance officer how would reduce the adverse impact of international trade to your company. (5 marks)

(c) Explain international finance markets affect international trade. (5 marks)

QUESTION THREE (15 MARKS)

(a) Explain influencing of exchange rates behaviour (5 marks)

(b) A Kenya bank intends to invest in an option market to hedge against the risk of foreign exchange fluctuation. The following information is available in the option's market

Spot exchange rate	KES 142.50/ £1
Exercise price (X)	KES 138.50/£1
Time (t)	6 months
Risk free rate (R_f)	8 %
Standard deviation (δ)	0.4

Determine the value of call option and a corresponding put option hence advice the company. (5 marks)

(c) A Kenyan firm is to receive $100,000,000 from USA customer in 12 months' time. The directors of the firm are worried about the Kenyan Shilling appreciating by 10% within the period. The following markets information is available:

Spot exchange rate		KES 101.50/$1---KES103.50/$1	
Annual inflation rates:		**USA**	**Kenya**
		5%	12%
Annual interest rates:			
	Borrowing	2.5%	14%
	Deposit	1%	7%

Forward rates for Kenya Shillings for 12 months:

Exercise Price	KES98.50/£1
Discount	KES 4.50

Explain how the company can hedge exchange risks using the following:

(i) Money market hedge (3 marks)

(ii) Forward contract (2 marks)

QUESTION FOUR (15 MARKS)

(a) Explain how Kenya macroeconomic factors affect capital inflows (4 marks)

(b) Explain how Mundell-Fleming model is used to achieve economic equilibrium. (4 marks)

(c) Electric International is considering a new plant in the France. The plant will cost 52 million Euros. Incremental cash flows are expected to be 6million Euros per year for first 3 years, 8million Euros the next three years, 10million Euros in years 7 through 9, and 12millions Euros in years 10 through 19. After which the project will terminate with no residual value. The spot rate is KES114.50 per Euro. The required rate of return on repatriated Kenya Shillings is 16 percent.

(i) If the exchange rate stays at KES114.50 per Euro, Calculate the projects Net Present Value. (4 marks)

(ii) If the Kenya Shillings appreciates to KES 113.50 for years 1-3, to KES 112.80 for years 4-6, to KES 112.25 for years 7-9 and to KES 111.80 for years 10-19. Calculate the new Net Present Value. (3 marks)