



**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN CAMPUS/BUNGOMA CAMPUS/WEBUYE CAMPUS

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

FOURTH YEAR SPECIAL/SUPPLIMENTARY EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: BCF 430

COURSE TITLE: INTERNATIONAL FINANCE

DATE: WEDNESDAY, 3RD AUGUST 2022 TIME: 11-1PM

INSTRUCTIONS TO CANDIDATES

Attempt QUESTION ONE and any other two questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over. ►

QUESTION ONE (30MARKS)

- i. Balkan Ltd., a company based in Kenya, intends to invest in a capital project which will be based in Dodoma, Tanzania. Details of the project are presented below:
1. The project will commence on 1 January 2018 on which date Tsh 40 million will be incurred on acquisition of plant and machinery. The plant and machinery will be fully depreciated on straight basis over the project's useful life which is estimated to be four years.
 2. An additional Tsh 24 million will be required for working capital on commencement of the project. The amount will however be recovered in full at the end of the project's useful life.
 3. Annual sales revenue from the project are estimated as follows:

Year	Sales (Tshs)
2008	30 million
2009	60 million
2010	90 million
2011	60 million

4. Variable operating costs are expected to be 20% of sales
5. Annual fixed costs are estimated at Tsh. 2 million
6. The corporation tax rate in Tanzania is 30% (assume the cash flows will not be taxed in Kenya)
7. The exchange rates between Ksh and Tsh over the four year period are expected to be as follows:

Tsh. = 1 Ksh

1 January 2018	18
31 December 2018	20
31 December 2019	22
31 December 2020	24
31 December 2021	26

8. All cash inflows are expected to occur at the year – end
9. The cost of capital for the project is 10%

Required: Determine the net present value of the project (in Kenya shillings) and hence advise Balkan Ltd on the suitability of the project (12 Marks)

- ii. The following are extracts of the foreign trade transactions in country X whose currency is the Dinar(D)

Transaction	Dinars "billion"
Imports of oil	15
Economic aid to a neighboring country	0.5
Exports of wheat	1.2
Interest earnings on foreign investments	3
Loans to other countries	4
Purchase of foreign investments by country X residents	4
Purchase of 3% shareholding in a local real estate firm by foreigners	1.5

Required: prepare extracts of the following balance of payments accounts, showing how the above transactions would be recorded:

- a. Current account (4 Marks)
 - b. Capital account (3 Marks)
- iii. There has been a considerable momentum to reduce or remove trade barriers in an effort to achieve “free trade”. Tom Roy, a disgruntled executive of an exporting firm stated “Free trade is not conceivable, we are always at the mercy of the exchange rate. Any country can use this mechanism to impose trade barriers”
- iv. **Required:** Interpret Tom Roy’s statement (6 Marks)
- v. Outline the factors that an investor should implement to ensure a successful investment in a tax haven (offshore investment) (5 Marks)

QUESTION TWO (20MARKS)

- i. ABC Ltd, a US firm is deciding whether to borrow Swiss Francs for one year. The quoted interest rate for Swiss Francs is 8% and quoted rate for US dollar is 15%. ABC develops a probability distribution for the Swiss Francs possible percentage change in value over the life of the loan.

Possible rate change in SF over life of the loan	Probability of occurrence
-6%	5%
-4%	10%
-10%	15%
1%	20%
4%	20%
6%	15%
8%	10%
10%	5%

Required: calculate the effective financing rate (8 Marks)

- ii. Discuss the motives for foreign direct investments (FDIs) by multi-national corporations (6 Marks)
- iii. Distinguish economic from transaction exposure (6 Marks)

QUESTION THREE(20MARKS)

- i. In a particular Kenyan bank the GBP (£) is worth Ksh 140, while USD (\$) is worth Ksh 80. The bank has also quoted the cross exchange rate at £1= \$1.79. Suppose you have Ksh 1 million, demonstrate how you can implement a triangular arbitrage. Show how much Kshs you will end up with (8 Marks)
- ii. Discuss the role of the International Monetary Fund (IMF) and its significance to the activities of multinational corporations (6 Marks)
- iii. Briefly explain meaning of the following terms:
 - a. International fisher effect (3 Marks)
 - b. Purchasing power parity (3 Marks)

QUESTION FOUR(20MARKS)

- i. As an online forex trader you believe that signals in the market are indicating that the British Pound will go up against the US Dollar. You open 1 lot for buying the Pound with an 8% margin at the price of 1.34215 and wait for the exchange rate to climb. At some point in the future, your predictions come true and you decide to sell. You close the position at 1.39215.

Note: 1 lot = \$100 000

Required: Show your total return both in monetary and percentage terms (8 Marks)

- ii. Delica Ltd is a US based MNC that will receive Swiss Francs (SF) 200 000 in 6 months. Suppose that Delica can borrow funds denominated in Swiss Francs at a rate of 3% over a 6 month period, show how the firm can build a money market hedge.(6 Marks)
- iii. Write brief notes on the following types of bonds used in the international financial markets: (6 Marks)
- a. Samurai bonds
 - b. Euroyen bonds
 - c. Yankee bonds