



(University of Choice)
**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN/BUNGOMA/WEBUYE/KAPSABET/MUMIAS/NAIROBI CAMPUS

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: **BCF 430**

COURSE TITLE: **INTERNATIONAL FINANCE**

DATE: **Friday 29TH APRIL 2022** TIME: **8-10AM**

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO (2)** questions

TIME: **2 Hours**

MMUST observes **ZERO** tolerance to examination cheating

QUESTION ONE: (30 MARKS) COMPULSORY

- A. Distinguish between locational, triangular and covered interest arbitrages with appropriate examples where necessary. (6 Marks)
- B. Assume the following information relates to the dollar and the pound respectively:
- Spot rate of \$1 = 0.625
- 180 day forward rate of \$1 = 0.641
- 180 day British interest rate = 4%
- 180 day US interest rate = 3%

Required:

- a. Explain what is happening to the value of the dollar over the 180 day period (6 Marks)
- b. Calculate the percentage change in the value of the dollar and compare with the difference in interest rates. (4 Marks)
- c. If interest rate parity does not hold, covered interest arbitrage still may not be worthwhile due to various characteristics of foreign investment. Discuss some of these characteristics. (8 Marks)
- D. Explain why the currencies of countries with high inflation rates tend to have forward discounts. (6 Marks)

PART TWO: ANSWER ANY TWO QUESTIONS**QUESTION TWO: (20 MARKS)**

- A. Discuss with examples where appropriate the three main theories that explain the level of international business. (8 Marks)
- B. The methods of increasing international business extend from the relatively simple approach of international trade to the more complex approach of acquiring foreign firms. Discuss. (12 marks)

QUESTION THREE: (20 Marks)

- A. The balance of payments account can be described in three broad categories as presented below. Explain what each category indicates with appropriate illustrations.
- a. Current account in surplus, capital account in deficit (4 Marks)
 - b. Current account in deficit, capital account in surplus (4 Marks)

- c. Current account and financial account in balance. (4Marks)
- B. Every government uses strategies that may give its local firms an advantage in the fight for global market share. Discuss any 4 of such strategies. (8 Marks)

QUESTION FOUR: (20 MARKS)

- A. Distinguish between direct quote, indirect quote and cross exchange rates. (6 Marks)
- B. Sunrise Bank quotes a bid rate of £0.58 for the US dollar and an ask rate of £0.60. Calculate the percentage bid/ask spread. Bidii Bank quotes an ask rate of £0.12 for the US dollar and a bid rate of £0.09. Determine the bid/ask percentage spread. Explain the difference in the spread between the two banks. (12 Marks)