UNIVERSITY EXAMINATION

CHUKA UNIVERSITY

RESIT/SPECIAL EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 434: INTERNATIONAL FINANCE

STREAMS **TIME: 2 HOURS**

DAY/DATE: MONDAY 01/02/2021 **2.30 P.M – 4.30 P.M**

INSTRUCTIONS:

Attempt Question one and any other two questions

Question One:

a. Describe any four strategies used by a multinationals intending to invest in a foreign market or conduct international business. (6 marks)

b. A current spot exchange rate is KES1.50/RWF and the three-month forward exchange rate is KES1.52/RWF. The three-month interest rate is 8.0 percent per annum in Kenya and 5.8 percent per annum in Rwanda. Assume that you can borrow as much as KES1,500,000 or RWF1,000,000.

Determine whether interest rate parity is currently holding. (6 marks)

c. A Kenyan exporter is due to receive from a Malawian customer Kwacha407,500 in June 2021. The following information is currently available.

	Kwacha/KES
Spot rate	1.9575- 1.9595
Current sterling futures contract	1.9600
The rates applicable on the invoice due date in June 2021	
Spot rate	1.9670 - 1.9690

June sterling futures Contract 1.9655
The applicable futures contract size is KES 62,500.
Required:
Amount receivable based on currency futures hedge. (6 marks)

d. Distinguish between segmented capital markets and integrated capital markets and comment on the cost of capital in both markets. (6 marks)

e. Most developed financial markets are considered to be integrated. However, it is sometimes claimed that international financial markets are not integrated because of various impediments to capital mobility.Briefly, explain any four impediments to capital mobility in international financial markets. (6 marks)

Question Two:

a. Describe four categories of the major participants in the forward market based on their objective.

(8 marks).

b. A company has a KES 4,400,000 receipt expected in April 2021. The current spot rate is £/KES 0.7915. Research shows that KES/£ options are available on the options Exchange. The contract size is KES 125,000.

An extract of the exercise prices for both call and put showed the following:

Exercise price	**£/KES**
0.7900	0.00465
0.7925	0.00585

Required:

Amount receivable under option hedge. (12 marks)

Question Three:

a. Using an illustration distinguish between multilateral netting and bilateral netting system.

(6 marks)

b. Faida Ltd. came across an investment in Germany. The project costs DM10 million and is expected to produce cash flows of DM4 million in year 1 and DM3 million in each of years 2 and 3. The current spot-exchange rate is \$0.5/DM1 and the current risk-free rate in the United

States is 11.3 percent, compared to that in Germany of 6 percent. The appropriate discount rate for the project is estimated to be 15 percent, the U.S. cost of capital for the company. In addition, the subsidiary can be sold at the end of three years for an estimated DM2.1 million.

Required: Advise whether the project should be undertaken. (14 marks)

Question Four:

a. Describe the following international financial markets.

i) International bond market. (4 marks)

ii) International equity market. (4 marks)

b. A Kenya firm is due to pay a Ghanaian supplier Cedi one millionin three months' time.The relevant data from the foreign currency is as follows

	GHS Cedi /KES
Spot rate	0.5120 - 0.5152
One-month forward rate	0.5141 - 0.5171
Three-month forward rate	0.5171 - 0.5202

Money market interest rates (p.a.) are:

Ghana (%)	5 - 5.5
Kenya (%)	2 - 2.4

Required: Advise the company on the appropriate hedge. (12 marks)
