

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 434: INTERNATIONAL FINANCE

STREAMS: BCOM Y4S2 (ODEL)

TIME: 2 HOURS

DAY/DATE: MONDAY 29/03/2021

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- **Attempt question ONE and any other TWO questions**

QUESTION ONE

- (a) Distinguish between a currency spot market and a currency forward market. (6 marks)
- (b) Explain any four methods of payments that could be used by a Multinational Corporation (MNC) to settle international payments. (6 marks)
- (c) Martin Gitau specializes in forex trading. The following quote is provided:

Swiss Franc/ Kenya Shilling	= SFR 1.5971/KES
Australian Dollar/Kenya Shilling	= A\$1.8215/KES
Australian Dollar/Swiss Franc	= A\$1.4400/SFR

Required:

Arbitrage profit, if any, assuming martin has Kes. 1,000 to invest. (6 marks)

- (d) Identify and briefly describe three types of foreign currency exchange risks. (6 marks)
- (e) Generations Ltd expects to receive ZAR 1,200,000 in the next three months to 30th June 2020. The current spot rate is ZAR/KES 1.5020 – 1.5110. The current futures price on a contract size of KES 62,500 is ZAR/KES 1.5035. The spot exchange rate in June is forecast at ZAR/KES 1.5100 – 1.5190 while the June 2019 futures sells at ZAR/KES 1.5120.

Required: amount receivable based on futures hedging strategy. (6 marks)

QUESTION TWO

- (a) Mark Limited is a Kenyan based multinational company that has affiliates in Ethiopia, Rwanda and Tanzania. The following payment matrix relates to affiliates cash flows for the month of March 2020.

		Kenya	Ethiopia	Rwanda	Tanzania
Affiliate	Disbursements	Sh. "000"	Receipts	Sh. "000"	Sh. "000"
Kenya		-	40,000	75,000	55,000
Ethiopia		8,000	-	-	22,000
Rwanda		15,000	-	-	17,000
Tanzania		11,000	25,000	9,000	-

Required:

Determine the savings from the multilateral netting assuming that the foreign exchange cost of transferring funds is one percent of the transactions value. (14 marks)

- (b) Describe the international money market. (6 marks)

QUESTION THREE:

- (a) Discuss any benefits that accrued to a company to that cross-list its equity shares on more than one national exchange. (6 marks)

- (b) Real Plc is a UK firm considering investing in a new project in Canada which will have a life of four years. The initial invest is C\$ 150,000 including working capital. The net after tax cash flows which the principal will generate are C\$60,000 per annum for years 1,2 and 3 and C\$45,000 in year 4. The terminal value of the project is estimated at C\$50,000. The current spot rate is C\$1.7/£ 1and economic forecast expected sterling to strengthen against the Canadian dollar by 1% per annum over the next four years. The company evaluates UK projects at 14 per cent.

Required: evaluate the project using:

- (i) Local currency (6 marks)
 (ii) Foreign cash flows (8 marks)

QUESTION FOUR:

(a) 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)

(b) Real limited is expecting a receipt of ZAR 900,000 in 6 months' time. The company treasury has obtained the following:

	KES/ZAR
Spot rate	1.6764-1.7140
Six months forward rate	1.7000-1.7040
Expected spot rate in six months	1.7090-1.7100

Money market rate	Borrowing (p.a)	Lending (p.a)
South African Rands	6.5%	5%
Kenyan Shillings	7.5%	6%

Required:

Advice the company whether to undertake a forward contract hedge or money market hedge. (14

marks)