

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION

MBAD 835: INTERNATIONAL FINANCE

STREAMS: MBA

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 07/04/2021

8.30 A.M. – 11.30 A.M.

INSTRUCTIONS

- *Attempt all questions.*
- *Do not write on the question paper*

Question one

(a) Discuss five considerations that have prompted to rise of multinational corporations operations (10 marks)

(b) Bright is a Kenyan company that exports on credit to a firm in the United States of America (USA). The Kenyan company expects to receive US\$ 800,000 in one year's time. The current spot exchange rate is KES. 100/US\$.

The company has created a probability distribution for the forward spot rate in one year as follows:

Probability	forward spot rate KES/US\$
0.20	101
0.50	103
0.30	107

Additional information

1. One year put options on US\$ are available with an exercise price of KES.103 and a premium of KES. 4 per US\$.

2. One year call options on the US\$ are available with an exercise price of KES.100 and a premium of KES.3 per US\$
3. The future spot rate is estimated in a year's time to be KES. 102 per 1 US\$.

Required:

Determine whether a forward market hedge or currency option would be the most appropriate hedging strategy for the company (15 marks)

Question two

- (a) You have been provided with the following series of exchange rates.

Euro (€) KES: 0.7000-0.7010

KES/British Pound (£) 1.7000-1.7010

Euro (€)/British Pound (£) 1.2000-1.2010

Assume that you have KES one million in cash.

Required:

Demonstrate how you could take advantage of these exchange rates to obtain arbitrage gain. (15 marks)

- (b) Distinguish between segmented capital markets and integrated capital markets and comment on the cost of capital in both markets. (10 marks)

Question three

- (a) Explain any four methods that could be used by a multinational corporation (MNC) to settle international payments. (6 marks)
- (b) Describe the following international financial markets
- (i) International bond market (6 marks)
 - (ii) International equity market (6 marks)
- (c) Shoprite Holdings is a South African investor. The investor is considering investing in U.S Apple Stock. The world risk premium is 6%, and the sensitivity of Apple to changes in the world index is 1.3. The only currency that Apple is sensitive to is the US dollar, which has a foreign currency risk premium of 2%.

The estimated sensitivity of Apple dollar-denominated returns to the US dollar is 0.8. The risk-free rate is 3% in South Africa and 5% in the United States. Shoprite Holdings uses the International Capital Asset Pricing Model.

Required:

The requires return on Apple.(7 marks)

Question four

- (a) A Kenyan exporter is due to receive from a Malawian customer Kwacha 407,500 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 (10 marks)

- (b) Trend Limited is a Kenya firm considering investing in a new project in Rwanda which will have a life of four years. The initial invest is RWF 150,000 including working capital. The net after tax cash flows which the principal will generate are RWF 60,000 per annum for years 1,2, and 3 and RWF 45,000 in year 4. The terminal value of the project is estimated at RWF 50,000. The current spot rate is RWF 1.7/KES1 and economic forecast expects the Kenya shillings to strengthen against the Rwanda Francs by 1% per annum over the next four years. The company evaluates Kenyan projects at 14 per cent.

Required: Advice the management (15 marks)

.....