CHUKA **UNIVERSITY**

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION

MBAD 835: INTERNATIONAL FINANCE

STREAMS: MBA Y2S1

TIME: 2 HOURS

DAY/DATE : TUESDAY 5 /10/ 2021 **2.30 PM – 5.30 PM**

INSTRUCTIONS TO CANDIDATES:

- Answer ALL questions.
- Don't write anything on this question paper

QUESTION ONE

a) Explain any four most common forms of political risk that may be experienced by a multinational corporation in its operation. [4 Marks]

b) Describe any four techniques that a multinational corporation can adopt to optimize cash flows. [4 Marks]

c) ABC Ltd is a Kenya based import-export company. It has an invoice, which it is due to pay on 30 June, in respect of $350,000. The company wishes to hedge its exposure to risk using traded options. The current $ /KES spot rate is 1.5190-15230. The contract size of KES 25,000 is available.

	June contracts	
Exercise Price ($/KES)	Calls	Puts
1.45	8.95	10.20
1.50	6.80	12.40

Option quotes are given in cents per shilling (KES)

Assume that it is now the 31 March 2021 and the expected ($/KES) spot rate on 30th June 2021 is 1.4810 – 1.4850.

Required:

Calculate the cash flows in respect to the payment. [6 Marks]

d) A Kenyan company owes a New Zealand company NZ$3 million, payable in 3 months' time.

	KES / NZ$
The current exchange rate is	19.0300 – 19.0500

The Kenya Company decide to use a money market hedge to manage the exchange risk.

The current annual borrowing and investing rates in the two countries are:

	New Zealand	Kenya
Investing	2.5%	4.5%
Borrowing	3.0%	5.2%

Required

Amount payable using a money market hedge. [6 Marks]

QUESTION TWO

a) Consider the following market rates:

USD /CHF 1.6639-1.6646

EUR/USD 0.9682 – 0.9686

EUR /CHF 1.6410 – 1.6123

Required:

i) Cross exchange rate [4 Marks]
ii) Arbitrage profit, if any, assuming you have $ 1 million [8 Marks]
b) Examine four strategies that a multinational corporation could use to hedge its economic exposure. [6 Marks]

QUESTION THREE

a) Evaluate any three factors that influence capital structure decisions for Multinational corporations. [6 Marks]

b) Suppose that the annual interest rate is 5 percent in the United States and 8 percent in the U.K, and that the spot exchange rate is $1.50/£ and the forward exchange rate, with one – year maturity, is $1.48/£

Required

Determine whether interest rate parity is currently holding. [4 Marks]

c) Heko Ltd constructed a manufacturing plant in Ghana. The construction cost 9 billion Ghanian cedi. The Company Brower intends to leave the plant open for three years. During the three years of operation, cedi cash flows are expected to be 3 billion cedi, 3 billion cedi and 2 billion cedi, respectively. At the end of the third year, the company expects to sell the plant for 5 billion cedi. The company has a required rate of return of 1 percent. The current spot rate is cedi 8,700 /KES, and the cedi is expected to depreciate by 5 percent per year.

Required: Advice the management [10 Marks]

QUESTION FOUR

a) Explain any four benefits that would accrue to a foreign investor investing in the international equity markets. [8 Marks]

b) BIG Group is made up of three companies in Rwanda, Malawi and Kenya. The following inter-company transactions took place during the first quarter of 20X1.

	Paying subsidiary		
Receiving subsidiary	Rwanda	Malawi	Kenya
Rwanda	-	Rwf10 million	RWF6 million
Malawi	MWK 5 million	-	MWK 20 million
Kenya	KES12 million	KES 16 million	-

The group introduced a system of multilateral netting to minimize the number of inter-group payments. The Kenya shillings (KES) is the settlement currency. The Exchange rates are as follows.

MWK 11.2475= RWF1
RWF 0.6919 = KESI
MWK 7.7821 = KESI

Required

Illustrate the effect of multilateral netting on inter-group receipts and payments. [12 Marks]

QUESTION FIVE

a) Discuss any five advantages to a company of invoicing an export sale in a foreign currency. [10 Marks]

b) Suppose that A Ltd, a UK construction company, wins a contract to construct a bridge in Kenya. The bridge will require an initial investment of Ksh.100 million and will be sold for Ksh. 200 million in one year's time.
The currency spot rate is Ksh.120/£. The current UK borrowing rate is 10%.

Required:
Determine whether A Ltd should do nothing or hedge its exposure using the forex swap.
[10 Marks]

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