CHUKA UNIVERSITY

UNIVERSITY EXAMINATION

RESIT /SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION

MBAD 835: INTERNATIONAL FINANCE

STREAMS: **TIME: 3 HOURS**

DAY/DATE: FRIDAY 05/11/2021 **2.30 P.M – 5.30 P.M**

INSTRUCTIONS:

Attempt ALL Questions

Question One:

a. Examine four strategies that a multinational corporation could use to hedge its economic exposure. (6 marks)

b. 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 and has obtained the following information from the financial market. The current $/KES spot rate is 1.5190-1.5230. The contract size of KES25,000 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)

c. Generations ltd is expected to receive $400,000 in next 3 months from a customer in the United States. The company has obtained the following information from the financial market.

	$/KES
The current spot rate	1.8250-1.8361
Forward rates	1.8338 - 1.8452

Deposit rates (p.a) Kenya 4.5% and US 4.2%

Borrowing rates (p.a) Kenya 5.75% and US 5.1%

Required: Advice management on hedging strategy to adopt. (8 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 the inter-affiliates cash flows for the month of March 2020.

		Kenya	Ethiopia	Rwanda	Tanzania
		Receipts			
Affiliate	Disbursements	Sh."000"	Sh."000"	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:

Illustrate the effect of multilateral netting on inter-group receipts and payments and 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 equity markets. (6 marks)

Question Three:

a. Distinguish between foreign bonds and Eurobonds. (4 marks)

b. Heko Ltd constructed a manufacturing plant in Ghana. The construction cost 9 billion Ghanaian cedi. The company 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 17 percent. The current spot rate is cedi 8,700 /KES1 and the cedi is expected to depreciate by 5 percent per year.

Required: Advice the management (12 marks)

c. Explain any two benefits of netting as adopted in international cash management.(4 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. (8 marks)

b. Baraka Ltd is Kenya Company supplying agricultural products Switzerland. It is 1st January 2021. The company's treasury department is currently dealing with a sale to a Swiss customer of CHF12·3 million which has been agreed with the customer to pay for the products on 30 June 2021. The treasury department intends to hedge the foreign exchange risk on this transaction and has obtained the following information from the financial market.

Exchange rates (quoted as KES/CHF)	
Spot	1·0292 - 1·0309
Six months forward	1·0358 - 1·0380
Expected spot rate on 30th June	1·0361 - 1·0381

The currency futures details are as follows:

(Contract size CHF125, 000, futures price quoted as KES per CHF1)

January	1·0318
March	1·0345
June	1·0369

Required:

Advise the firm's management. (12 marks)

Question Five

a. Write short notes on international banking offices. (6 marks)

b. Explain three main types of foreign exchange risk exposure that are likely to affect the organization and advise the company on policies it could consider to reduce exposure to these risks. (6 marks)

c. Tabitha Wanjiku specializes in forex trading. She is considering the following quote from two different banks located in different locations:

	Real Bank		Safe Bank	
Currency Quotes	Bid	Ask	Bid	Ask
Naira/KES	0.8226	0.8293	0.8361	0.8395

Required:

Arbitrage profit, if any, assuming Tabitha has Naira 20,000 to invest. (8 marks)
