10

(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER

SPECIAL/SUPPLIMENTARY EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 430

COURSE TITLE: INTERNATIONAL FINANCE

DATE: 19/10/2018 **TIME: 3.00 - 5.00 P.M**

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBUCO observes ZERO tolerance to examination cheating

SECTION A (COMPULSORY)

QUESTION ONE

a) An exporter in the UK has invoiced a customer in the USA the sum of $300,000 receivable in one year time .He has under consideration two methods of hedging his exchange risk;

i) Borrow an appropriate amount now for one year ,convert the amount to sterling and repay the loan out of eventual receipts .

ii) Enter into a 12-month forward exchange contract to sell the $300,000.

The sterling – US dollar spot rate is 1.8190-1.8402.

The 12-months forward rate of dollar against sterling is 1.7703-1.7915

Interest rates for 12 months are;

USA	6.65%
UK	9.25%

REQUIRED :

Determine the net proceeds in sterling under each alternative and suggest the better alternative. (10marks).

b) Examine the methods available to a company to reduce the effect of restrictions on remittances from a foreign investment centre.(10 marks).

C) Highlight ways in which currency swaps may be of value to an international firm (10 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

a) Describe and comment on the relative significance of the types of currency exposure that an international firm may face in its operations (10marks).

b) ABC ltd is a company involved in the export of horticultural produce to the markets in East Africa. Explain the methods that are available to the company in the management of its currency risk (10marks).

QUESTION THREE

a) Assuming inflation in Kenya is expected to be 5% while that of Uganda is to be 8%.If the initial exchange rate is Kshs.1=Ush30.

REQUIRED;

Using the theory of purchasing power parity, explain the effect of inflation on the exchange rate between the two countries (10marks).

b) Discuss the determinants of the country's currency exchange rates (10marks).

QUESTION FOUR

a) Discuss the factors that an international firm may take into account when deciding whether to hedge interest rate risk.(10marks).

b) XYZ ltd is a Kenyan company involved in export trade .The company is currently financed with a sh50million floating rate loan, whose rate is 9%.The profit before taxation is sh12 million. XYZ Ltd pays corporation tax at 33%.

REQUIRED

i) Calculate the profit available to the company's shareholders and the level of interest cover at present level of interest rates and for each of the following rates;

a) 15%

b) 6% (8marks)

ii) Briefly explain the effect of variation in interest rates on the shareholder's earning basing on your computations in (i) above (2marks).

QUESTION FIVE

a) Examine the factors that an international firm should take into account when deciding on the sources and mix of finance.(10marks).

b) Discuss the methods that can be employed by an international firm in the management of its exposure to political risk (10 marks)