



**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2019/2020 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE AND  
BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BCF430/BBF412**

**COURSE TITLE: INTERNATIONAL FINANCE**

**DATE: 2<sup>ND</sup> FEBRUARY, 2021      TIME: 2,00PM – 4.00PM**

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**INSTRUCTIONS TO CANDIDATES**

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

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

### QUESTION ONE

- a) Under management of transaction exposure as regards foreign exchange explain the following
- i. Forward exchange contract (1mk)
  - ii. Money market hedge (1mk)
  - iii. Currency option (1mk)
- b) What is your understanding of the term euro bond (3mks)
- c) What are the motives of investing in foreign markets (3mk)
- d) What are the merits of fixed exchange rates (3mk)
- e) Distinguish between absolute form of purchasing power parity and relative form of purchasing parity. (3mk)
- f) Equity bank quotes a bid rate of £0.62 for the US dollars and an ask rate of £0.64 what is the bid rate percentage spread (2mks)
- g) Give three reasons as to why exchange rate risk may be considered irrelevant by some economists (6mks)
- h) What are the cost related motives of foreign direct investment (3mks)
- i) Highlight on the factors affecting exchange rate (6mks)

### QUESTION TWO

- (a) Why do firms forecast exchange rates? (10 marks)
- (b) What are the main motives of borrowing in foreign markets. (5marks)
- (c) Assume that the direct quote between \$ and £ is £1:\$ 1.5 and the inflation rate in UK is 10% and inflation rate in the US is 6%.

Required: Compute the % age change in the direct quote and determine the new exchange rate (5marks)

**(Total 20 marks)**

### QUESTION THREE

What factors would one consider when choosing between Euromarket and Domestic market bonds.

(20 marks)

### QUESTION FOUR

- (a) Enumerate the importance of international finance (10 marks)

(b) Highlight the difference between currency future and forward exchange rate contract  
(10 marks)

**(Total 20 marks)**

**QUESTION FIVE**

(a) An international project will cost company X £ 35 million. The cash flows for four years before a withholding tax of 10% is given below

Year	1	2	3	4
£millions	7	13	18	22

If the required rate of return is 12% determine the net present value of the project and its internal rate of return (10 marks)

(b) Highlight the limitations of fundamental forecasting. (10 marks)

**(Total 20 marks)**