

150



**KIBABII UNIVERSITY**

**2021/2022 ACADEMIC YEAR  
FOURTH YEAR SECOND SEMESTER  
MAIN EXAM**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCF422**

**COURSE TITLE: INTERNATIONAL FINANCE**

**DATE: 6<sup>TH</sup> SEPTYEMBER, 2022      TIME: 9.00AM – 11.00AM**

---

**INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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

## QUESTION ONE

- a) In which way are the following concepts applied as regards management of exchange exposure in the foreign exchange market.
- i. Forward exchange contract (2mk)
  - ii. Money market hedge (2mk)
  - iii. Currency option (2mk)
- b) A country can raise finance in the international Financial markets by utilizing a Eurobond. Give your understanding of a Eurobond. (3mks)
- c) Assume that the direct quote is deutschmark is **DM** 1 - \$ 0.5 while the general interest rate in US changes to 6% and general interest rate in Germany changes to 3%.

### Required:

Compute the percentage change in direct quote and the new exchange rate.(3mrks)

- 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 determine the bid rate percentage spread (2mks)
- g) Exchange Rate faces many challenges in the market ,evaluate factors affecting exchange rates. (6mks)

## QUESTION TWO

- (a) Evaluate the purpose of forecasting exchange rates? (5 marks)
- (b) Evaluate reasons for International Trade (5mrks)
- (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

- a) Assume that the foreign currency (F) has been quoted against the £ as follows:

Spot rate	£1: F2156 - 2166
3 months forward rate	£1; F2207 - 2222

#### Required:

1. Determine the amount required in sterling pound to buy 2 million foreign currencies
    - i. At the spot
    - ii. In 3 months time under the forward exchange contract, (5mrks)
  2. Compute the amount a customer would get if he were to sell 2 million foreign currency.
    - iii. At the spot rate
    - iv. In 3 months time under forward exchange contract (5Mrks)
- b) Evaluate the contractual techniques of managing transaction exposure (10 mrks)

### QUESTION FOUR

- (a) Enumerate the importance of international finance (10 marks)
- (b) Differentiate between currency futures and forward exchange rate contract (10 marks)

(Total 20 marks)

### QUESTION FIVE

- a) Flagwaver Plc is considering whether to establish a subsidiary in Slovenia at a cost of Euros 20 million. The subsidiary will run for four years and the net cash floors from the project are shown below.

Year	Net cash floors (Euros)
1	3,600,000
2	4,560,000

3	8,400,000
4	8,480,000

There is a withholding tax of 10% on remitted profits and the exchange rate is expected to remain constant at Euros1.50/Pound. At the end of the four year period the Slovenian government will buy the plant for Euros 12,000,000. The latter amount can be repatriated free of withholding taxes. If discount rate is 15% . What is the net present value of the project. (10mks)

(b) What measures can be taken to reduce balance of payments disequilibrium in Developing countries (5mrks)

(c) Evaluate the functions of International Bank for Reconstruction and Development (IBRD) (5Mrks)

**(Total 20 marks)**