



# KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS  
2021/2022 ACADEMIC YEAR

SPECIAL/SUPPLEMENTARY EXAMS

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

FOR  
BACHELOR OF COMMERCE

COURSE CODE: BCF422

COURSE TITLE: INTERNATIONAL FINANCE

DATE: TIME:

23.11.22

11am - 1.00pm.

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## INSTRUCTIONS TO CANDIDATES

1. Answer Question One and any Other Two Questions

### QUESTION ONE

- a) Distinguish between non-contractual techniques and contractual techniques of managing team action exposure when dealing in foreign exchange transactions (4mks)
- b) Summarize the main functions of international finance (4mks)
- c) Justify the rationale of firms engaging in international trade (6mks)
- d) What are the motives of providing credit in foreign markets (4mks)
- e) Distinguish between locational arbitrage and triangular arbitrage as used in international arbitrage (2mks)
- f) Distinguish between technical forecasting and fundamental forecasting (2mks)
- g) Explain the meaning of Eurocurrency deposit (2mks)
- h) If the direct quote in Deutsemark is DM 1: \$ 0.5 while the general rate of interest in US is 6% and the general rate of interest in Germany is 3%.

**Required:** Compute the percentage change in direct quote and give the new exchange rate. (3mks)

- i) Highlight on the types of Euro currency loans (6mks)

**(Total 30mks)**

### QUESTION TWO

- (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 THREE

- (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
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£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)

- a) State the ways in which international banks assist multinational corporations. (10mks)

**(Total 20Mks)**

#### **QUESTION FOUR**

- a) Discuss the main reason for foreign direct investments. (10Mrks)
- b) Since multinational companies invest long-term, they heavily rely on long-term finance, highlight on two main financing sources (5marks)
- c) You have Pounds1, 200,000 to invest. The current spot rate of the dollar is \$ 1:\$ 0.6. The 90 day forward contract rate \$1: Pounds 0.63. The 90 day interest to the UK is 3%  
The 90 day interest rate in US is 5%. Based on this information is the covered interest rate arbitrage by UK investor feasible. Explain. (5marks)

### QUESTION FIVE

ABC Ltd a UK firm has been invited to tender for a contract in Blueland with the local currency of Blues (B). The company thinks that the contract should cost \$ 1850,000 and is prepared to price contract at \$ 2 million. The currency exchange rate for Blues and \$ is \$ 1: B2.80. The company therefore bids for B 5.6 million. The contract will not be awarded until after six months. A six month currency option to sell B 5.6 million at an exchange rate of \$ 1: B 2.8 is current costing \$ 40,000.

ABC Limited can either buy the option or enter into forward exchange contract at a rate of \$ 1: B 2.8

Assume that the company fails to win the contract and the spot rate in six months time is B 2.50

**Required:** Advice the company on which alternative is better(20Mrks)