TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF BUSINESS ADMINISTRATION

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF COMMERCE/BUSINESS ADMINISTRATION

BFI 4409: INTERNATIONAL FINANCE

END OF SEMESTER EXAMINATIONS

SERIES: AUGUST 2019

TIME: 2 HOURS

INSTRUCTIONS:

You should have the following for this examination

-Answer Booklet, examination pass and student ID

- Attempt Question ONE and any other TWO Questions.

Do not write on the question paper

Question ONE(COMPULSARY)

a) Manchester Ltd, a London firm bought goods from a US supplier and must pay US $ 4 million in 3 months' time. The company finance director wishes to hedge against the foreign exchange risk and is considering 3 methods:

- Using the forward exchange contract
- Using the money market hedge
- Using a lead payments

Annual interest rate and foreign exchange rate are given below:

	US $		UK £	
	Deposit Rate	Borrowing Rate	Deposit Rate	Borrowing Rate
1 month	7%	10.25%	10.75%	14.0%

3mnths	7%	10.75%	4.0%	4.25%

Spot rate £1: $ 1.8625 – 1.8635
1 month forward 0.60 – 0.58 cents premium
3 months forward 1.80 – 1.75 cents premium

Required

Advise the company on the best method to use. **(12 Marks)**

b) Differentiate between forwards contracts and future contracts **(8marks)**

c) Despite the arguments of the "classical" theory of free trade, the twenty first century has seen the gradual movement away from free trade, with governments increasingly imposing restrictions on trade and capital flows. All have adopted, to varying extents, various forms of restrictions to protect some of their industries or agriculture Discuss the reasons why government impose restrictions **(10marks)**

(Total 30 Marks)

Question TWO

a) Explain the following types of foreign currency exposures:
   i. Transaction **(3 marks)**
   ii. Translation **(3 marks)**
   iii. Economic **(2 marks)**

b) Small and medium sized companies are usually limited in their sources of finance to their domestic markets. Larger companies are able to seek funds in international financial markets. International banks, most of which are large multinational enterprises are the most common financial intermediaries in the international financial markets. Discuss how these banks assist multinational enterprises. **(12 Marks)**

(Total 20 marks)

Question THREE

a) Kenya in recent year has been financing its budget deficit through floating Euro bonds in the Euromarkets. Discuss the factors to be consider when choosing between Euromarkets or Domestic markets (**10 marks)**

b) Explain the issues affecting international money transfer **(10marks)**

(Total 20 marks)

Question FOUR

a) Explain with Kenyan examples the main reasons why MNCs engage in foreign direct investment. **(10 marks)**

b) Briefly explain the factors that affect exchange rate. **(10 marks)**

(**Total 20 marks)**

Question Five

Explain international liquidity and discuss the five main types of international liquidity

(20 marks)