TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

MASTER OF SCIENCE IN FINANCE

BFI 5205: INTERNATIONAL TRADE AND FINANCE

END OF SEMESTER EXAMINATION A

SERIES:MAY –AUGUST 2024

TIME:THREE HOURS

DATE: AUGUST,2024

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of five questions. Attempt question one and any other three questions

Do not write on the question paper.

QUESTION ONE

1(a) Read the case below and answer questions that follow

Global financial institutions are investment banks, Insurance companies, or commercial banks, active in the stock-, bond-, foreign exchange-, derivatives- and commoditiesmarkets, investing private equity including mortgages in hedge funds and pension funds, mutual funds, sovereign wealth funds etc. International lobbying firms play a role in international financial systems, as they increasingly develop cross-border lobbying arms to influence international negotiations. For example, Podesta Group, a Washington lobbying firm, founded "Global Solutions" to influence multilateral free trade agreements and other forms of integration such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), and any other issues "at the intersection of trade, economics, politics and diplomacy".

The main participants in the global finance system are international financial institutions, such as banks, hedge funds whose failure may cause a global financial crisis, the International Monetary Fund and the Bank for International Settlements. Customers of the global financial system include multinational corporations, as well as countries, with their economies and government entities such as the central banks of the G20 major economies, finance ministries EU, NAFTA, OPEC, and others.etc.

Regulators of the global financial system, many of which play dual roles, in that they are financial organizations at the same time. These include the above mentioned International Monetary Fund and Bank for International Settlements, particularly its "Global Economy Meeting (GEM), in which all systemic emerging economies' Central Bank governors are fully participating, has become the prime group for global governance among central banks" as well as the financial regulators of the U.S.A (the US agency quintet of Federal Reserve, Office of Comptroller of the Currency, Federal Deposit Insurance Corporation, Commodity Futures Trading Commission, Federal Reserve Board, Securities and Exchange Commission), Europe (European Central Bank) and the Bank of China, besides others. Governments act in various capacities within the global finance system traditionally primarily through their finance ministries.

(a) (i) Discuss the role of economic integration as mentioned above (12marks).

(ii) Explain the role of government in the global finance system as suggested in the passage (8marks)

(iii) Discuss the main barriers to trade that Podesta Group was trying to address through multilateral free trade agreements (12marks).

(b) A put option contract on British pound specifies the following information:

- Put option premium on British pound £ = $0.04 per unit.
- Strike price = $1.50. One option contract represents £32,250.

A speculator who had purchased this put option decided to exercise the option shortly before the expiration date when the spot rate of the pound was $1.40. The speculator purchased the pounds in the spot market at that time. Calculate the net profit to the purchaser of the put option (8marks).

QUESTION TWO

2(a) Discuss the main goals of the bank for international settlements (BIS) (10marks).

(b) Discuss the main export promotion tools (10marks)

3 (a) Discuss the common forms of political risk that a multinational company is faced with (10marks)

3(b)Describe the multinational capital budgeting techniques used by multinational corporations to evaluate international projects (10Marks)

QUESTION FOUR

4 (a) Discuss the main forms of entry to foreign markets (15marks)

(b) Discuss the Functions of the world trade organization in trade facilitation (5marks)

QUESTION FIVE

5. Discuss the Stages of economic integration (20Marks)