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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR FOUR**

**FIRST SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: BBM 410**

**COURSE TITLE: INTERNATIONAL FINANCE**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 08/04/2021 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of THREE (3) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Assume that the spot rate: £1: $1.6365-1.6385

1 month forward: 0.005-0.0047 (premium)

3 months forward: 0.003-0.005 (discount)

**Required**

Compute the cost of the forward cover to customer who;

1. Buy pounds one month forward (**2 1⁄2 marks)**
2. Sells pounds one month forward (**2 1⁄2 marks)**
3. Buy pounds three month forward (**2 1⁄2 marks)**
4. Sells pounds three month forward (**2 1⁄2 marks)**
5. Super deal limited has taken delivery of 250,000 electronic devices from an American company priced dollars at $24 each on a three month credit period. Super deal limited has all its money tied up up in its operations but it could borrow in Kenya if necessary.

Given:

Interest rates

USA 12% p.a

Kenya 10% p.a

Exchange rates

Spot: $1: ksh 76.22-92

Three month forward $1: ksh 64.23-93

A three month dollar call option is available at a premium of usd. 25,000 at exercise

Price of ksh. 66.53

A three month dollar put option is available at a discount of usd. 10,000 at an exercise

Price of ksh. 65.60

**Required**

Using suitable computations, illustrate three strategies available to super deal limited in managing the exposure and advice on the suitable technique. **(10 marks)**

1. Discuss the challenges encountered in the management of finances for multinational corporations **(10 marks)**

**QUESTION TWO:**

1. various definition has been advanced for multinational corporations, apply the strategic focus approach to describe a multinational corporation **(9 marks)**
2. suppose the current exchange rates of a three currency pairs are as follows:

EUR 1/USD: 1.1837

EUR 1/GBP: 0.7231

GBP 1/USD: 1.6388

Apply the formula to identify the opportunities in the foreign exchange market.

Clearly show the steps for exploiting the opportunities identified **(11 marks)**

**QUESTION THREE:**

1. Multinational corporations face various constraints in their efforts to attain various objectives. Discuss three categories of such constraints **(9 marks)**
2. Your organization is in the process of getting into licensing contract for distribution electronic equipment with manufacturers from Japan. Write a brief to the directors of the organization. In the brief, explain what a licensing contract is together with the merits and demerits of such arrangements **(11 marks)**

**QUESTION FOUR**

An arbitrageur wants to do a triangular arbitrage by exploiting an arbitrage opportunity resulting from a pricing discrepancy among three different currencies in the foreign exchange market. The current exchange rate of three currency pairs and cross rate is as follows:

$1: ksh 73.6835- 77.7825

£1: ksh 120.2335- 128.4255

£1: $ 1.4679- 1.5003

£1: $ 1.5458- 1.7429 (cross rate)

Assume you hold ksh. 1,000,000

1. how can you make arbitrage profits in this market? **(10 marks)**
2. how can you make arbitrage loss in this market by using an undervalued currency to an overvalued currency? **(10 marks)**

**QUESTION FIVE**

1. Identify and explain five motives for foreign direct investments **(10marks)**
2. What are the advantages and disadvantages of a fixed exchange rate regime **(10 marks)**