



GARISSA UNIVERSITY

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR ONE
SECOND SEMESTER EXAMINATION**

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

COURSE CODE: MBA 833

COURSE TITLE: INTERNATIONAL FINANCE

EXAMINATION DURATION: 3 HOURS

DATE: 06/04/18

TIME: 2.00-5.00 PM

INSTRUCTION TO CANDIDATES

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) 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)

Mkulima ltd, a Kenyan firm, is considering the establishment of a small subsidiary in Uganda that would produce food products. All ingredients can be obtained or produced in Uganda.

The final products to be produced by the subsidiary would be sold in Uganda and other East African countries. Mkulima ltd. is very interested in this project, as there is little competition in that area. Three high-level managers of Mkulima ltd. have been assigned the task of assessing the country risk of Uganda. Specifically, the managers were asked to list all characteristics of Uganda that could adversely affect the performance of this project. The decision as to whether to undertake this project will be made only after this country risk analysis is completed and accounted for in the capital budgeting analysis. Since Mkulima ltd. has focused exclusively on domestic business in the past, it is not accustomed to country risk analysis.

Required

- i. Explain why it is important to carry out country risk analysis when evaluating investment projects **[4 marks]**
- ii. What factors related to Uganda's government deserve to be considered **[6 marks]**
- iii. What country-related factors can affect the demand for the food products to be produced by Mkulima Ltd **[5 marks]**
- iv. What country-related factors can affect the cost of production **[4 marks]**
- v. Assuming the project takes off, explain some of the methods Mkulima ltd would apply in reducing exposure to existing country risk, while maintaining the same amount of business within Uganda. **[5 marks]**
- vi. Briefly explain any three techniques or approaches that managers of Mkulima Ltd could use to carry out the country risk analysis **[6 marks]**

QUESTION TWO

- (a) Discuss five major factors that led to growth of foreign exchange market in Kenya **[5 marks]**
- (b) Briefly explain five main factors that influence exchange rates in Kenya **[5 marks]**



QUESTION THREE

Money serves as a medium of exchange, a unit of account, and a store of value. Different monies must be converted into the same unit of account by the exchange rate in order to compare prices and rates of return. This currency conversion gives rise to foreign exchange risk in investing and operating internationally. The foreign exchange markets have arisen to deal with spot and forward transactions in different monies, as well as currency options to either hedge or speculate.

Required:

- i. In light of the above statement, identify and briefly explain the types of foreign exchange risks that an international firm may be faced with and how such risks can be managed **[10 marks]**

QUESTION FOUR

- (a) Discuss the dynamics of the international business environment that have implications of country – specific investment climate and are important in making operational and strategic decisions for multinational corporations **[6 marks]**
- (b) Explain the factors that a finance manager of a multinational firm needs to consider in formulation of the firm’s dividend policy and method of payment **[4 marks]**

QUESTION FIVE

- (a) Explain the nature of capital structure and characteristics that affect their decisions in the multinational corporations (MNCs) **[5 marks]**
- (b) Discuss the possible sources of finance for capital structure of multinational corporations (MNCs) **[5 marks]**

QUESTION SIX

Discuss the possible approaches and the controls employed by a finance manager of an MNC in the management of working capital **[10 marks]**

