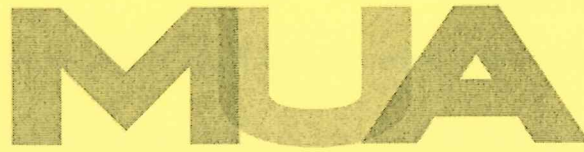


The
Management
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POSTGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
MASTER OF BUSINESS ADMINISTRATION

BFO 507: INTERNATIONAL FINANCIAL MANAGEMENT

DATE: 1st APRIL 2022

DURATION: 3 HOURS

MAXIMUM MARKS: 60

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

A company operating in a country having the dollar as its unit of currency has today invoiced sales to the United Kingdom in sterling, payment being due three months from the date of invoice. The invoice amount is £3,000,000 which, at today's spot rate of 1.5985 is equivalent to \$4,795,500.

It is expected that the exchange rate will decline by about 5% over the three-month period and in order to protect the dollar proceeds from the sale, the company proposes taking appropriate action through either the foreign exchange market or the money market.

The \$/£ three-months forward exchange rate is quoted as 1.5858-1.5873. the three-months borrowing rate for Eurosterling is 15.0% and the deposit rate quoted by the company's own bankers is currently 9.5%.

Required:

- a) Explain the alternative courses of action available to the company, with relevant calculations to four decimal places, and to advise which course of action should be adopted. (15 Marks)
- b) Discuss whether the multinational company should hedge translation exposure by incurring transaction exposure. (10 Marks)
- c) Evaluate any five merits of foreign currency options. (5 Marks)

QUESTION TWO

- a) Evaluate any three objectives of the IMF as contained in paragraph one of its

Articles of Agreement

(3 Marks)

- b) The process of analyzing foreign direct investments is more complicated than for purely domestic ones. Evaluate any three causes of this. (6 Marks)
- c) Examine any three purposes of International Capital Markets (6Marks)

QUESTION THREE

- a) A UK firm's subsidiary in Delta Republic

Initial investment D\$ 480,000

Annual cash flow D\$ 350,000

Corporate tax:

Delta Republic None

UK 25%

Required rate of return 18%

Exchange rate for year 0, year 1 and year 2 are as follows

$$Y_0 = \text{£}0.50/\text{D\$}$$

$$Y_1 = \text{£}0.52/\text{D\$}$$

$$Y_2 = \text{£}0.54/\text{D\$}$$

Assume withholding tax is 10%

Required

- a) Compute Net Present Value (NPV) in both subsidiary and parent perspectives (12 Marks)
- b) Assess any three Factors that International Equity Returns (3 Marks)

QUESTION FOUR

In the recent past, the government has been aggressively wooing multinational companies to come and invest their resources in Kenya.

- a) Analyze five key decision areas that a financial analyst would have to advise a company that is considering making direct investment in Kenya (10 Marks)
- b) Discuss any five risks involved in direct foreign investment by Multi-National Companies. (5 Marks)