



Kasarani Campus
Off Thika Road
Tel. 2042692 / 3
P. O. Box 49274, 00100
NAIROBI
Westlands Campus
Pamstech House
Woodvale Grove
Tel. 4442212
Fax: 4444175

KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 9th August, 2024
Time: 8.30am –10.30am

KFI 2401 MULTINATIONAL FINANCIAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

GLOBALTECH COMPANY

GlobalTech is a multinational corporation (MNC) headquartered in the United States, specializing in advanced technology solutions. It involves managing financial activities in an international context, dealing with different currencies, political risks, and market imperfections. For GlobalTech this means handling currency exchange, political stability, and regulatory differences in its expansion into emerging markets like Brazil, India, and China. Unique challenges include navigating diverse economic conditions, mitigating political risks, and optimizing cross-border financial strategies. The company operates in over 30 countries across Europe, Asia, and Latin America, with a diverse portfolio that includes software development, hardware manufacturing, and IT consulting services. International diversification spreads investment risk across different countries and markets, reducing overall portfolio risk. For GlobalTech Inc., investing in the technology sectors of Brazil, India, and China can provide higher returns due to rapid market growth. However, risks include currency volatility, political instability, and regulatory changes. Recently, GlobalTech has been exploring opportunities to expand its operations in emerging markets such as Brazil, India, and China.

The company aims to leverage the growing technology markets in these countries to increase its global footprint. As GlobalTech expands its operations internationally, it faces a multitude of challenges and opportunities. The company's financial management strategies, investment opportunities, and potential risks in these emerging markets need thorough evaluation. It operates in a country with floating exchange rate system lead to more volatility in currency values, affecting GlobalTech revenues and costs. For example, if Brazil transitions to a floating exchange rate, the company's operating costs and pricing strategies may be impacted by currency fluctuations. GlobalTech would need to implement robust currency risk management strategies, such as hedging and currency diversification, to protect its financial stability. It also operates Eurocurrency markets which offer higher interest rates for deposits and lower borrowing costs due to less regulation. GlobalTech can use these markets for short-term financing needs by borrowing in Eurocurrencies, which can be more cost-effective and flexible than domestic financing options. As a newly appointed financial analyst, you have been tasked with analyzing various aspects of multinational financial management, including capital budgeting, financing, taxation, and corporate governance, to support GlobalTech expansion plans.

Required:

- a) Explain how multinational financial management applies to GlobalTech in its expansion into emerging markets. (5 marks)
- b) Analyze the impact of different exchange rate systems on GlobalTech financial strategies. (5 marks)
- c) Explain the benefits and risks associated with international portfolio investments for GlobalTech. (5 marks)
- d) Assess the significance of Eurocurrency markets for GlobalTech short-term financing needs. (5 marks)
- e) Discuss how GlobalTech should determine its cost of capital in the context of its multinational operations. (5 marks)
- f) From the above case, explain challenges faced by GlobalTech in managing their working capital (5 marks)

QUESTION TWO (20 MARKS)

- a) Explain the primary differences between domestic financial management and international financial management. Provide examples to illustrate these differences. (6 marks)
- b) Describe the techniques used for evaluating international investment projects. How do these techniques differ from domestic investment evaluation? (8 marks)
- c) Discuss the criteria that an investment evaluation method must meet before being considered as viable. (6 marks)

QUESTION THREE (20 MARKS)

- a) Describe the significance of the current account and capital account in understanding a country's economic transactions with the rest of the world. (6 marks)
- b) Describe the evolution of international monetary system. (6 marks)
- c) Identify and explain the different sources of international financing available to multinational corporations. (8 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss the main goals and objectives of multinational corporations (MNCs) in the realm of financial management. (6 marks)
- b) Identify and explain the different types of foreign exchange exposure faced by multinational corporations. (6 marks)
- c) Explain various tax planning strategies that MNCs can use to optimize their global tax liabilities. (8 marks)

QUESTION FIVE(20 MARKS)

- a) Discuss the functions of the International Monetary Fund (IMF), the World Bank, and the Bank for International Settlements (BIS) in the global financial environment. (8 marks)
- b) Explain the International Capital Asset Pricing Model (ICAPM). How does it differ from the traditional CAPM, and what are its implications for international investments? (6 marks)
- c) Identify and explain ethical issues that arise in international business. Provide examples of how MNCs can address these issues. (6 marks)