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

Date: 5th December, 2024
Time: 11.30am – 1.30pm

KFI 2401 - MULTINATIONAL FINANCIAL MANAGEMENT

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

CASE STUDY: BLACKROCK EXITS THE NSE

NVIDIA Corporation is a large multinational enterprise (MNE) based in the United States, operating in more than 20 countries globally. The company manufactures electronic devices and components, sourcing raw materials from Asia and selling finished products in the U.S., Europe, and emerging markets. According to the tech giant's CEO, the company faces challenges related to foreign exchange exposure, international transfer pricing, working capital management, and international diversification. NVIDIA Corporation recently expanded its operations into South America by setting up a subsidiary in Brazil. The company wants to optimize its tax liability by managing available international transfer pricing techniques, while at the same time manage its foreign exchange risks exposures that arise due to fluctuations in the Brazilian real (BRL) against other currencies like the euro and yen. Furthermore, it seeks to manage its working capital across various regions and diversify its investment portfolio to reduce risks. Below are specific challenges that NVIDIA Corporation faces:

1. **International Transfer Pricing:** NVIDIA Corp. sells components to its subsidiary in Brazil at different prices than it sells to third-party buyers in other countries. The company wants to minimize tax liabilities without violating tax regulations on transfer pricing.
2. **Foreign Exchange Exposure:** NVIDIA Corp. is exposed to various types of foreign exchange risk especially due to sales in Europe (EUR), Japan (JPY), and Brazil (BRL).
3. **International Diversification:** NVIDIA Corp. wants to diversify its investments and operations across different regions to reduce risks.
4. **Working Capital Management:** The Company must manage working capital efficiently across its various subsidiaries, optimizing cash flows while considering different regional regulations and economic conditions.
5. **Cross-border Financing:** NVIDIA Corp. is also considering issuing bonds in European markets to fund its future expansion, but it's unsure about how the fluctuating EUR/USD exchange rate will impact its capital structure.

Required:

- a) From the case above, NVIDIA is facing some foreign exchange exposure challenges that could threaten its Brazilian operations. Explain the different types of foreign exchange exposures that they could be facing. (6 marks)
- b) Identify the common challenges that MNEs like NVIDIA encounter when trying to manage their international working capital. (6 marks)
- c) Suggest the various possible transfer pricing methods that NVIDIA can adopt to minimize their tax liabilities. (6 marks)
- d) According to excerpt above, NVIDIA is considering cross border listing as a means of raising funds. Explain the features identifiable with a cross-border listing. (6 marks)
- e) Assume an investor is evaluating NVIDIA's stock with the following data:
 - Risk-free rate (R_f): 4%
 - Expected return on the global market $E(R_M)$: 7%
 - Expected return due to exchange rate change $E(R_{FX})$: 2%
 - Beta with global market (β_{iM}): 1.5
 - Beta with exchange rates (β_{iFX}): 0.8Required:
 - i) Calculate the expected return. (4 marks)
 - ii) Describe two assumptions of the International Capital Asset Pricing Model used in valuing NVIDIA's stock. (2 marks)

QUESTION TWO (20 MARKS)

- a) Adoption of a sound cash management strategy is an important aspect of how a multinational firm is run. Identify and describe two cash management strategies that an MNE can adopt. (6 marks)
- b) Discuss the factors that influence a multinational enterprise's decision to choose between either domestic or international financial markets. (8 marks)
- c) The ICAPM model is commonly used by various stakeholder of multinational firms. Discuss the applications of this model. (6 marks)

QUESTION THREE (20 MARKS)

- a) Forex exchange risk is a key concern among many multinational firms, if not all. Suggest the various external strategies that an MNE could adopt to manage this exposure. (8 marks)
- b) A multinational corporation (MNC) is evaluating an investment project in Country X. The project involves establishing a manufacturing plant with an initial investment of \$10 million. The projected cash flows (in USD) for the next five years are as follows:
 - Year 1: \$2 million
 - Year 2: \$3 million
 - Year 3: \$4 million
 - Year 4: \$4 million
 - Year 5: \$5 million

The MNC has determined the following financial metrics and risks associated with the project:

- Discount Rate: 12%
- Country Risk Premium: 2%
- Exchange Rate Risk Premium: 1%
- Corporate Tax Rate: 30%
- Depreciation: \$1 million per year

Calculate the following:

- i) Net Present Value (NPV) (6 marks)
- ii) Profitability Index (PI) (6 marks)

QUESTION FOUR (20 MARKS)

- a) Describe the benefits of international portfolio diversification to the finance manager of a Kenyan multinational firm. (8 marks)
- b) Discuss the characteristics commonly identifiable with multinational enterprises. (6 marks)
- c) International firms should strive towards attaining an optimal capital structure, and this means having a proper understanding of the cost of financing utilised by the firm. Discuss the factors influencing the cost of capital of a firm with global operations. (6 marks)

QUESTION FIVE (20 MARKS)

- a) Multinational corporations operate under a specific set of objectives that guide their operations and activities. Explain the objectives of MNCs. (8 marks)
- b) Balance of payments is an economic concept widely referred to by finance managers of international firms, and which helps them in decision making. Discuss the balance of payment concept and the constituent Current and Capital Accounts. (6 marks)
- c) Explain the characteristics of multinational capital budgeting methods. (6 marks)