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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

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

Date: 12th August, 2024
Time: 2.30pm – 4.30pm

KFI 2400 INTERNATIONAL FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

KAMATA-METER CORPORATION

Kamata Corporation, a multinational company with operations spanning North America, Europe, and Asia, is grappling with challenges related to foreign exchange (forex) and the volatility of exchange rates. Kamata Corporation operates in the technology sector, manufacturing and selling electronic devices and software solutions hence we can say it is a Multinational corporation which is able to diversify its portfolio in different countries. The company's revenue streams are significantly impacted by fluctuations in currency exchange rates, given its widespread global presence. Global economic uncertainties have led to increased volatility in currency exchange rates. Kamata Corporation's financial performance is directly affected, with revenue and costs subject to constant fluctuations. Kamata Corporation historically employed various strategies to manage forex risks.

Questions arise regarding the effectiveness of current risk management practices. The corporation imports and its due to pay for goods from the US to the value of $15,500 in one year's time. The spot exchange rate is $1.60/£1 while the one-year forward exchange rate is predicted to be $ 1.55/£1. If it does not buy forward today, he will run the risk that in one year's time the spot exchange rate may be worse than $ 1.55/£1 and it is predicted to gone down to $1.30/£1.Some of the employees were not able to determine the rate and the finance manager of Tata company highlighted the importance of studying international finance which will help evaluate the exchange rates, employ derivates like spot and forward contracts to help them mitigate on the risk and also to make intelligent decisions. The company has been facing financial challenges in the past years and was able to come up with possible international financing options which is not publicly known.

Required

a) Conduct a thorough analysis of the impact of exchange rate volatility on XYZ Corporation's financial statements. (5 marks)

b) Evaluate the effectiveness of XYZ Corporation's existing forex risk management strategies. (5 marks)

c) i) Calculate the amount to pay if they buy dollar at forward exchange rate. (2 marks)

ii) How much will he pay at that spot rate? (2 marks)

d) Discuss the main reasons highlighted by Tata finance manager for undertaking international finance. (6 marks)

e) Explain the reasons for Kamata Corporation to invest in different countries. (5marks)

f) Since the financing option for Kamata Corporation is not known, suggest possible international financing options they are using. (5 marks)

QUESTION TWO (20 MARKS)

a) For the past years the world's different currencies have been affected due to the pandemic. Discuss the best exchange rate system you would advise the government to adapt and the reasons. (8 marks)

b) Using a multinational corporation of your choice doing business in Kenya, establish the two foreign exchange exposure they encounter in the course of doing its business. (4 marks)

c) Explain four difference between futures contract and forward contracts. (8 marks)

QUESTION THREE (20MARKS)

a) Explain what is meant by the following statement:

i) Purchasing Power Parity (PPP). (3 marks)

ii) Arbitrage profit and when one can make arbitrage profit. (3 marks)

b) World bank has been giving finances to various developing countries. Discuss five key role played by this institution especially during this pandemic other than giving finances. (8 marks)

c) Assume Kenyan exporter sells goods to a British importer for £10,000 with payment due in 60 days. The spot rate is Ksh. 50 for one British Pound. Assume the Ksh. is expected to appreciate in value relative to the pound i.e. exposed net asset position. In order to minimize the transaction exposure, the Kenyan exporter enters into a forward contract with a commercial bank in town whereby exporter sells £10,000 for future delivery to the bank in 60 days' time. The agreed forward rate is Ksh. 49. Required: Calculate the value of receivable to the Kenyan exporter in Ksh and show if it was a gain or a loss. (6 marks)

QUESTION FOUR (20 MARKS)

a) Exchange rate is simply the price of one currency in terms of another. There are two methods of expressing exchange rate: -Foreign exchange units per unit of the domestic currency. For example, taking the Kenya shilling as the domestic currency, we can have approximately Kshs. 85.6 required to purchase one US dollar (Kshs. 85.6/$1) Foreign units per unit of domestic currency. Again taking Kenya Shillings as a domestic currency, we can have approximately $0.01162/Kshs.1 required to obtain one pound.Discuss the factors that will affect the increase and decrease movement of exchange rate.

(8 marks)

b) A recent quote for the USD/KES exchange rate was 110.50 Kenyan shillings to 1 USD. If your market analysis has led you to expect an increase in the USD/KES exchange rate, then you might be able to buy 100,000 U.S. dollars against the Kenyan shilling today at that 110.50 exchange rate. If the USD/KES exchange rate then rose to 111.50. Calculate the trading profit.

(4 marks)

c) The decision to invest capital in a project abroad should be based upon consideration of expected return and risk just like investing locally. However, these factors are different in different countries. Discuss reasons for foreign investment. (6 marks)

QUESTION FIVE (20MARKS)

a) The International Monetary Fund statutory purposes include promoting the balance expansion of world trade, the stability of exchange rates, the avoidance of competitive currency devaluations, and the orderly correction of a county’s balance of payments problems. Discuss the purpose of this institution.

(8 marks)

b) Discuss the case for fixed exchange rate system as discussed in the evolution of international monetary system.

(6 marks)

c) Assume the Kenya Inflation rate fall relative to Ugandan inflation rate. Other things being equal, how should this affect the:

i) Kenya demand for Udandan shillings

(3 marks)

ii) Supply of Ugandan shilling for sale

(3 marks)