PAN AFRICA CHRISTIAN UNIVERSITY

SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

JANUARY-APRIL 2019 SEMESTER

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: CFN302

COURSE TITLE: INTERNATIONAL FINANCE

EXAM DATE: MONDAY 15th APRIL 2019

DURATION: 3 HOURS

TIME: 9:00AM-12:00PM

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- This examination script consists of **Six (6)** questions.
- Answer Question **ONE** and any other **FOUR** questions
- *ALL PAC University's examination rules and regulations apply*

QUESTION ONE (COMPULSORY= 40 MARKS)

a. Going multinational, corporations can decrease their total business risk. Discuss. (2 marks)

b. Explain the following terms:
   i. Financial system (2 marks)
   ii. Global financial system (2 marks)
   iii. International finance (2 marks)

c. Describe the **three** basic types of trading mechanisms. (6 marks)

d. Discuss **four** functions of international finance. (8 marks)

e. Explain **four** services offered by international banks. (8 marks)

f. Discuss how companies can use the following derivative instruments for hedging purposes:
   i. Forwards (3 marks)
   ii. Futures (2 marks)
   iii. Swaps (2 marks)
   iv. Options (3 marks)

QUESTION TWO (15 MARKS)

a. Discuss **two** major advantages of international capital markets, giving relevant examples. (5 marks)

b. Giving relevant examples, explain the following components of international capital markets:

   i. International equity market (2 ½ Marks)
   ii. International bond market (2 ½ Marks)
   iii. Euro currency market (2 ½ Marks)
   iv. Offshore centres (2 ½ Marks)

QUESTION THREE (15 MARKS)

a. State **three** advantages of foreign trade. (3 marks)

b. Explain **two** reasons why a country may adopt a fixed exchange rate system. (4 marks)

c. Discuss **four** factors that have necessitated foreign trade development. (8 marks)

QUESTION FOUR (15 MARKS)

a. Explain the following:
   i. Purchasing power parity (2 marks)
   ii. Real exchange rate (2 marks)
   iii. Nominal exchange rate (2 marks)

b. The concept of purchasing power parity is important for understanding the two models of equilibrium exchange rates. Explain the **two** models. (9 marks)

QUESTION FIVE (15 MARKS)

a. Multi-national companies raise capital for their businesses either using short term financing or long-term financing. State and explain:

i) the long-term sources of finance (8 marks)

ii) short –term sources of finance (7marks)

QUESTION SIX (15 Marks)

a) The following are cash flows for two projects X and Y. The initial capital for each project is USD. 7,500. Each project has a four year economic life. The required rate of return for both projects is 12%

Year	Cash flows in USD	
	X	Y
1	2000	2000
2	2000	3300
3	3200	3500
4	3080	800

You are required to calculate:

i. NPV (7 marks)

ii. IRR (8 marks)