PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE BACHELOR OF BUSINESS LEADERSHIP

END OF TERM EXAMINATION -JANUARY-APRIL 2026

DEPARTMENT: BUSINESS

COURSE CODE: CFN 302

COURSE TITLE: INTERNATIONAL FINANCE:

INSTRUCTIONS

- This examination script consists of **Five (5)** questions.
- Read all questions carefully before attempting.
- Question **One** is compulsory and Answer any **three (3)** questions.
- Write your **student number** on the answer booklet provided.

QUESTION ONE (TOTAL 30 MARKS)

a) Explain the following terms as used in international finance;

i) Bid/Ask spread. (3 Marks)

ii) Capital markets. (3 Marks)

iii) Currency swap. (4 Marks)

b) Highlight any FIVE factors that affect foreign exchange rates. (5 Marks)

c) Explain any FIVE functions of foreign exchange market. (5 Marks)

d)

i. Discuss four factors to be considered in multinational capital budgeting. (4marks)

ii. Highlight any two types of financial futures. (2 marks)

iii. If Kenya and Uganda are experiencing an annual inflation of 10 percent and 4 percent respectively and the spot rate is Ksh 1 = Ush 0.85. Find the purchasing power parity (PPP) rate for the Uganda shilling in three years. (4 marks)

QUESTION TWO (TOTAL (MARKS 10)

a) An investor bought put options to sell 10,000shares. The exercise price was agreed as sh 105 and the intrinsic value was sh.5. it turned out that the spot price was sh 25. Determine the pay off when using a put and when trading in shares directly (5 marks)

b) Discuss uses of derivative instruments (5 marks)

QUESTION THREE (TOTAL MARKS 10)

a) Explain the effects of devaluation of revaluation of a given currency (5 marks)

b) Describe various factors that can affect the exchange rate (5 Marks)

QUESTION FOUR (TOTAL MARKS 10)

(a) After listening to a press briefing by the Governor of the central bank, you are saddened that the Kenyan government has always suffered a deficit in the current account of the balance of payment.

(i) Explain three problems that can arise when the current account is in a deficit position (3 Marks)

(ii) Explain three problems that can arise when the current account is in a surplus position (3 Marks)

(b) Explain the following terms as used in international finance:

(i) Purchasing power parity theory (2 Marks)

(ii) Interest rate parity (2 Marks)

QUESTION FIVE (TOTAL MARKS 10)

a) Bethel Ltd. is a company involved in the manufacture and export of electrical equipment in Far East and Euro zones. Required: Explain the foreign exchange risk exposure that a company would face in its operation. (5 Marks)

b) Discuss the reasons why knowledge of international finance is crucial to a corporate treasurer of an international firm. (5 Marks)