PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: CFN 302

COURSE TITLE: INTERNATIONAL FINANCE

EXAM DATE:

TIME:

INSTRUCTIONS

- Read all questions carefully before attempting.
- Question **One** in section **A** is **compulsory** and attempt any **THREE** questions from section **B**

SECTION A: COMPULSORY

……………………………………………………………………………………

QUESTION ONE.

a) Highlight two reasons that would influence a company to engage in international business (2 Marks)

b) Explain two major functions of the foreign exchange market,(2 Marks)

c) Maina a forex trader noticed the USD/EUR spot rate is 1.3960. Similarly, the CHF/USD spot rate is 0.9587. Calculate the spot CHF/EUR cross-rate.

Choose the answer from the following options (2 Marks)

A. 0.7422

B. 1.3383

C. 1.4561

d) The following Direct quote between Euros to US Dollar currency pair would be displayed like this: EUR/USD 1.4233. (Euro is the domestic)

Required

i. Explain the Direct quote (1 Mark)

ii. Determine the Indirect Quote (1 Marks)

SECTON B (CHOOSE ANY THREE)

……………………………………………………………………………………………

QUESTION TWO

a) Mambo LTD a company based in Kenya intends to invest in the United States of America (USA) the company will entail an initial capital of 2,500,000 United States Dollars ($). The project is expected to generate the following cash flows over its 5- year life.

Year	**Cash flows ($)**
1	50,000
2	80,000
3	110,000
4	120,000
5	180,000

The current spot exchange rate is 100 Kenyan shilling per United States Dollar ($). The risk free rate in Kenya is 10% and the risk free rate in United States is 8%. Mambo Ltd required rate of return on the project is 12%.

Required

i. The Net Present Value for the project (8 Marks)

ii. Advise the management of Tembo Ltd on whether to undertake the project based on your answer above (2 Marks)

QUESTION THREE

a) A Ugandan importer needs Zambian Kwacha to pay a Zambian exporter for goods purchased from him. The amount to be paid is Kwacha 5 Million. Ugandan shillings however are not quoted against Zambian Kwacha but both currencies are quoted against the US dollar. The trader contracted for spot rate basis. At that time the quote against the dollar was.

UG sh 3,695.61/US$** and the Kwacha **18.48/US$

Required

i. Determine the exchange rate between Ugandan shilling and Zambian Kwacha. (3 Marks)

ii. How much in Ugandan shillings should be given to get 5 Million Kwacha to effect payment to the Zambian exporter. (2 Marks)

b) Douglas specializes in cross- rate arbitrage. He notices the following quotes:

Swiss Franc/United States dollar = sFr 1.5971/$

Australian Dollar/United State Dollar = A$1.8215/$

Australian Dollar/Swiss Franc = A$1.440/sFr

Required

Calculate the arbitrage profit, if any assuming Douglas has $1,000,000 to invest. (5 Marks)

QUESTION FOUR

As an experienced investment and financial analyst you have you have been consulted by Mali International Investment Group (MIIG), a company based in United States which is considering setting a subsidiary in your country. The management of MIIG is concerned that your country is expecting to hold a general election at the end of this year.

Required

i. Advise MIIG management on three types of risks (exposure) that they are likely to face. (7 Marks)

ii. Highlight three ways in which they can mitigate from these risks (3 Marks)

QUESTION FIVE

a) Highlight three factors that could affect the currency spread at the forex market.(3 Marks)

b) Differentiate between the Spot rate and the Forward rate (4 Marks)

c) George is an international money market investor is presented with a bid price of 1.0788 United States Dollar (USD) per Euro against an ask price of 1.0799 USD per Euro. (3 Marks)

Required

Determine the bid - ask spread as a direct quote from the perspective of a European investor. (3 Marks)

QUESTION SIX

a) Miracles Ltd intends to make a £ 1,000 Million payment in three months' time. The money is available now. You work as an investment and financial advisor for the company and you are provided with the following information.

- United States Dollar $ interest rate in three months from now is 8% per annum.
- Sterling Pound (£) interest rate in three months from now is 10% per annum
- Spot exchange rate is $1.68 /£

Required

i. Compute the three month forward rate (5 Marks)

ii. Determine the annual Forward Premium or the Forward Discount (5 Marks)