PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: CFN302

COURSE TITLE: INTERNATIONAL FINANCE

EXAM DATE: MONDAY

TIME: 8.00AM – 11.00AM

INSTRUCTIONS

- This examination script consists of **six(6)** questions.
- Answer question ONE and ANY other three Questions.
- Show all your workings
- Read all questions carefully before attempting.

Write your **student number** on the answer booklet provided.

QUESTION ONE

Using relevant examples in each case, distinguish between:

a) A financial market and a financial institution (2marks)
b) Transactional exposure and translational exposure (2marks)
c) Spot exchange market and forward exchange market (2marks)
d) Leading and lagging (2marks)
e) Futures contracts and options (2marks)

QUESTION TWO

a) Citing relevant examples from Kenyan economy, discuss any three attributes of a good financial system (6marks)
b) Explain any two ways in which a firm operating in international market can benefit from international capital market (4marks)

QUESTION THREE

a) Explain the term 'exchange rate system' (2marks)
b) Using relevant examples, discuss four types of exchange rate systems (8marks)

QUESTION FOUR

Using relevant examples, describe any five reasons as to why capital budgeting in multinational corporations is more complex than in domestic firms (10marks)

QUESTION FIVE

a) Using relevant examples, explain any four benefits of international finance to a firm (4marks)
b) Sixty futures contracts are used to hedge an exposure to the price of silver. Each futures contract is on 5,000 ounces of silver. At the time the hedge is closed out, the basis is $0.20per ounce. (4marks)

Required:

Determine the financial position (loss or gain) of the trader if hedging the purchase of silver (2marks)

QUESTION SIX

a) Distinguish between the two types of swaps (4marks)
b) Discuss any three benefits of swaps to a company trading internationally (6marks)