PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER-DECEMBER 2024

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CFN 302

COURSE TITLE: INTERNATIONAL FINANCE

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer question **ONE** and ANY other **four** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One **(Compulsory= 10 marks)**

a. Discuss why; by going multinational, corporations can decrease their total business risk (4 marks)

b. Differentiate between a *domestic financial system* and *global financial system* giving examples. (4 marks)

c. Explain FOUR functions of international finance. (2 marks)

ANSWER ANY THREE QUESTIONS

Question Two

a. Define the following terms giving examples as used in international capital markets (5 marks)

   i. International equity market

   ii. Eurobond

   iii. Eurocurrency market

   iv. Offshore centers

   v. Global bond

b. "International capital markets are the same mechanism but in the global sphere, in which governments, companies, and people borrow and invest across national boundaries". Describe 5 benefits of international capital markets. (5 marks)

Question Three

On March 31, a Canadian firm borrows DM 2 m for 3 months at 6% p.a. in Germany. Since the firm needs the money in Canada, it hedges against exchange risk. On March 31, the spot rate $ 0.50/DM, the

90-day forward rate is $ 0.51/DM and the DM June futures is $ 0 .51. At the end of June, the spot rate is $ 0.48 . Assume the firm hedges only the principal and not the interest payments.

(a) What is the effective cost of borrowing (in percent p. a.) if the firm hedges in the forward market? (5 marks)

(b) What is the effective cost of borrowing (in percent p. a.) if the firm hedges in the futures market? Assume that the margin is $3000 per contract (remember, each contract is for DM 125,000), that the firm liquidates the futures contracts at a price of $ .48 at the end of June, and that the firm borrows $ at 14% in order to pay for the margins (5 marks)

Question Four

a. Explain the **three** basic types of trading mechanisms. (6 marks)

b. The following factors influence exchange rate systems in various currencies. Explain each factor. (4 marks)

   i. Inflation
   ii. Interest rates
   iii. Speculation
   iv. Change in competitiveness

Question Five

Suppose that a dealer quotes these terms on a five-year swap: fixed-rate payer to pay 9.5% for LIBOR and floating-rate payer to pay LIBOR for 9.2%.

a. What is the dealer's bid-asked spread? (2 marks)

b. How would the dealer quote the terms by reference to the yield on five-year Treasury notes? (4 marks)

c. Discuss two interpretations of an interest-rate swap. (4 marks)

Question Six **(10 marks)**

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

i) Their long-term sources of finance (5 marks)

ii) Their short –term sources of finance (5 marks)