LAIKIPIA UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BCOM 432: INTERNATIONAL FINANCE

STREAM: ***TIME: 2 HRS***

DAY: FRIDAY [11.30-1.30 P.M] ***DATE: 12/04/2024***

THIS QUESTION PAPER CONSISTS OF FIVE (5) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.

Instructions:

1. Answer question one (compulsory) and any other two questions
2. Start a new question on a new page
3. Show all working on the answer sheet
4. Do not write anything on the question paper

QUESTION 1

a). You are given the following information to compute balance of payments account for a country called Radolo, in the next year 2020.

1. NBK makes a loan Kshs. 12 million to a Southern Sudan firm. This loan is funded through creating deposits worth kshs 12 million in the NKB
2. A Kenyan firm sells kshs 42 million worth of maize to S.A which is paid for with a Bank Account was created in Kenyan Bank in S.A.
3. Kenyan resident receives kshs 30 million interest fron a Swiss firm (Bonds owned)
4. Kenyan tourist travel to Germany and spends kshs 10 million using his Account in a Germany Bank.
5. Kenyan government gives out maize worth kshs 4.0 million to Sudanese refugees
6. Treasury Dept. of Tanzania buys kshs 500 million worth of Kenyan government bonds and pays the amount with a deposit in Kenyan Bank.

Required

i) Pass journal cetries with narrations for the above transactions **(5marks)**

ii) Prepare Balance of payments, for the year 2020 **(5marks)**

b). A finance manager have two major conflicts to handle as they perform their financial management duties

Required

i) With illustration, explain these two conflicts as they would affect a finance manager at international level. **(5 marks)**

ii) How would you handle these conflicts? **(5 marks)**

c) The multinational finance manager comes face to face with a number of challenges or risks as they perform their duties.

Required;

i) With illustration explain these challenges **(5 marks)**

ii) Explain how these challenges can be handled **(5 marks)**

QUESTION 2

(a) Jomvu Mtata a U.K firm created a subsidiary in Kenya 4 years ago. After the period, the spot rate of exchange is kshs 120 to a dollar.

You are further informed that, the forecast have been revised for the remaining 2 years indicating that the exchange rate would be at kshs 110 in the fifth year and kshs 115 in the 6^{th} year. Due to this unstable trend, the U.K Firm is considering to divest the subsidiary in Kenya.

The original agreement have not changed and the potential acquirer offer of kshs 15 million before tax of 12% adjusting for tax remain exchange.

You are also given that projected cash flows for the year 5 and 6 are 10 million and 20 million respectively before withholding tax of 12% for remittance.

Required

Using cost of capital of 12% evaluate whether Jomvu Mtata should divest or not.

(10 marks)

b) Derivatives refer to financial instruments that are used as tools to manage exposure to risk, mainly by multinational companies.

Required

With illustration explain

i) The various types of derivatives **(3 marks)**

ii) Importance of each of the derivatives in (i) above **(3 marks)**

iii) When each of the derivatives in (i) above are used **(4 marks)**

QUESTION 3

(a) Given that product spoon sells both in Kenya and in South Africa and the product sells in Kenya at kshs 235 and in south Africa at US dollars 15. Assuming that the spot market rate is 30 shillings to a dollar.

Required

i) Calculate the implied exchange rate **(2 marks)**

ii) With illustration explain how the product will move **(4 marks)**

iii) What would be the consequent of the movement? **(4 marks)**

(b) Among the factor that affect variations in capital budgeting decision of a multi national firm are:

i) Uncertain salvage value

ii) Impact of foregone sales on foreign market

iii) Divercture or pulling out

Required

With illustrations, explain each of these factors using hypothetical figure **(10 marks)**

QUESTION 4

(a) Chiwo an MNC based in Kenya has interest to invest in the neighboring countries. The management approved establishment of subsidiary in Zimbabwe. However, the firm key risky factors considered important are; consumer attitudes, possibility of war and bureaucracy, importance rates are as follows;

Consumer attitude weight 50%, war 35% and bureaucracy 15%.

The company ratings range between 1-5, based on possible occurrence in each factors above is as follows consumer loyalty rated1, bureaucracy rates 3 and war 5. Besides political factors, key financial factor important to the firm are interest rate 15%, inflation rate 65% and exchange rate at 20%

.**Ratings** Based on possibility of occurrence is as follows; exchange rate 3, inflation a 2 and interest rates at 1. The overall political risks are much more important to the firm in Zimbabwe is given at 70% against 30% in financial problem.

Required

(a) Assist chiwo to evaluate the risk rating and decide if to invest or not. (Note, Chiwo can only accommodate or approve to invest if rating is below 3)

(10 marks)

(b) You have graduated as a BCOM graduate in finance option and invited for an interview, and assume you are given a question to "explain the nature and purpose of international trade that leads to international finance."

Required

Give your response to this question in details **(10 marks)**