



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

EXAMINATION FOR MASTERS OF BUSINESS ADMINISTRATION

MBAD 739: INTERNATIONAL FINANACE

STREAM:_{MBA} TIME: 3 HRS

DAY: MONDAY [9.00-12.00 NOON] DATE: 25/03/2025

THIS QUESTION PAPER CONSISTS OF THREE (3) PAGES
PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.

INSTRUCTIONS

- Attempt Question **ONE** and any other **THREE** Questions
- Show you workings and well labelled illustrations where necessary
- Do not write anything on your question paper

QUESTION ONE (Compulsory 15 Marks)

a) Describe the main functions of international finance.

(3 Marks)

- b) Explain the features characterizing basic tendencies observed in the world financial market to date. (5 Marks)
- c) The domestic interest rate for United States is i_d = 3% while the foreign interest rate for Japan equals if = 12%. If an investment period is 90 days, use the International Fisher Effect to predict the exchange rate changes.
 (2 Marks)
- d) Explain the J-curve Effect, a concept utilized in international financial management.

(5 Marks)

QUESTION TWO

a) Distinguish between Euro credit market, Euro bond market and types of Eurobonds.

(5 Marks)

b) Describe the costs and benefits of Foreign Direct Investment to both the host country and the investing Multi-National Corporations. (10 Marks)

QUESTION THREE

a) Evaluate the drawbacks of Global Portfolio Management.

(4 Marks)

b) Distinguish between Purchasing Power Parity (PPP) and Relative PPP.

(6 Marks)

c) Fidelity converted U.S. dollars to Mexican pesos on the spot market at time t to invest in Mexico and then converted pesos back into U.S. dollars after the investment had matured. Meanwhile, the U.S. dollar appreciated approximately 5% or e = 5%. Considering Mexico as the foreign country while the United States is the domestic country,

Required:

Compute Fidelity's expected return from Mexican investment.

(5 Marks)

QUESTION FOUR

A country has a fixed rate system and a balance-of-payments deficit.

Required

a) Explain how this country must maintain its exchange rate.

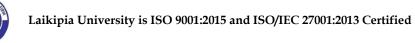
(5 Marks)

- b) What happens if the government runs out of reserves and refuses to apply the official exchange rate change? (5 Marks)
- c) You are holding 10 call options for petroleum with a strike price of \$75 per barrel. Option premium equals \$0.5 per barrel, and each contract specified a quantity of 1,000 barrels.

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Compute the premium, and whether you will exercise this option if the market price is \$50 per barrel? (5 Marks)

QUESTION FIVE

- a) Explain the key factors that have contributed to the Off-shore financing and investment. (5 Marks)
- b) Explain the rapid and widespread developments that have occurred in the international financial markets recently. (10 Marks)