

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

2<sup>ND</sup> SEMESTER 2023/2024 ACADEMIC YEAR

EXAMINATION FOR MASTERS OF BUSINESS  
ADMINISTRATION

**MBAD 739: INTERNATIONAL FINANCE**

***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  $i_f = 12\%$ . 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.



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)**

