



MURANGA UNIVERSITY COLLEGE

(A CONSTITUENT COLLEGE OF JOMO KENYATTA UNIVERSITY OF AGRICULTURE & TECHNOLOGY)

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: HBF 2401

COURSE TITLE: INTERNATIONAL FINANCE

DATE: 10-12-2015

TIME: 2.00-4.00PM

INSTRUCTIONS TO CANDIDATES

**QUESTION ONE (1) IS COMPULSORY
ANSWER ANY OTHER TWO (2) QUESTIONS**

MRUC observes ZERO tolerance to examination irregularities

QUESTION ONE: (30marks)

- a. You are the financial manager of a firm that operates in several countries. Advise the management on the major tasks in risk management. (8marks)
- b. Explain the scope of international finance. (8marks)
- c. Highlight the distinguishing features of international finance. (8marks)
- d. Explain the determinants of option price. (6marks)

QUESTION TWO (20marks)

- a. Explain any five determinants of exchange rate. (12marks)
- b. The cost of capital for multinational corporations (MNCS) and domestic corporations varies due to several factors. Discuss these factors. (8marks)

QUESTION THREE (20marks)

- a. An Indian multinational corporation has a subsidiary in the United Kingdom. To meet its investment needs that subsidiary firm wants to raise GBP 10 million by issuing five-year bonds in the British market at a coupon rate of 10percent per annum, payable annually. The current spot rate is GBP/INR 82. The INR is expected to depreciate at 1 percent each year for the next five years what is the effective cost of debt to the Indian MNC? Determine the Net Cash Flows for five years is as follows. (8marks)

Year	1	2	3	4	5
	57.98	62.75	63.38	64.02	926.93

- b. Highlight the various exchange rate systems. (12marks)

QUESTION FOUR (20marks)

- a) Briefly explain the variables that are unique to a multinational capital budgeting decisions (8marks)
- b) The cost of capital for a multinational corporation may differ from that of a fully established domestic firm. Discuss (12marks)