



**MURANGA UNIVERSITY COLLEGE**

*(A constituent College of Jomo Kenyatta University of Agriculture & Technology)*

**MAIN CAMPUS**

**SPECIAL/ SUPPLEMENTARY UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**FOURTH YEAR FIRST SEMESTER EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: HBF2401**

**COURSE TITLE: INTERNATIONAL FINANCE**

**DATE:**

**TIME:**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer any OTHER TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 2 Printed Pages. Please Turn Over. ►

**QUESTION ONE (30mks).**

- (a) Explain the various causes of transaction exposure. (8mks).
- (b) Explain the following terms as used in future contracts.
  - (i) Hedgers
  - (ii) Speculator
  - (iii) Arbitrageurs. (6mks).
- (c) Discuss the factors that determine the demand for a currency. (8mks).
- (d) Presently the spot rate is sh. 94.50/USD. A speculator feels that, after a week, US dollar should appreciate to sh. 94.60. What should he do if he has sh. 10,000 at his disposal? (4mks).
- (e) A company expects cash flow from its new project to the extent of \$5000, \$6500 and \$6000 respectively during the first three years of its operations. However due to changes in exchange rate the cash flow is affected and it will change to \$4000, \$5800 and \$5200. Find the magnitude of the possible real operating exposure during the initial year of operation assuming a discount rate of 10% percent. (4mks).

**QUESTION TWO (20mks).**

- (a) Highlight the attributes of banks that provide foreign exchange. (10mks).
- (b) Explain the factors that influence the cost flow and earnings per share of an MNC to be considered when determining the appropriate capital structure for itself and its foreign subsidiaries. (10mks)

**QUESTION THREE (20mks).**

- (a) Explain the salient features of forward contracts. (12mks).
- (b) Highlight its major tasks in risk management functions. (8mks).

**QUESTION FOUR (20mks).**

- (a) A multinational corporation operates in multi economic environment. The cost of capital can be affected by any of the factors present in these environments. Discuss. (1mks).
- (b) Highlight the factors that influence dividend policy decisions. (10mks).