



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF HUMAN RESOURCE

UNIVERSITY ORDINARY EXAMINATION

2017/2018 ACADEMIC YEAR

THIRD AND FOURTH YEAR SEMESTER ONE EXAMINATION FOR BACHELOR OF COMMERCE (FINANCE OPTION)

BCF 300 – INTERNATIONAL FINANCE

DURATION: 2 HOURS

DATE: 15TH DECEMBER, 2017

TIME: 2.00 – 4.00 P.M.

Instructions to Candidates:

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

SECTION ONE - COMPULSORY

QUESTION ONE

- (a) Explain the following international parity conditions:
- i) Real Interest Parity (2 marks)
 - ii) Covered interest parity. (2 marks)
 - iii) Relative purchasing power parity. (2 marks)
 - iv) Absolute purchasing power parity. (2 marks)
 - v) Purchasing power parity. (2 marks)
- (b) Discuss five advantages of a joint venture (10 marks)
- (c) Explain the five major factors that distinguish multinational from domestic financial management (10 marks)

SECTION TWO – ANSWER ANY TWO QUESTIONS

QUESTION TWO

- (a) Transactions in the foreign exchange market can be executed on a spot, forward, or swap basis. Explain each transaction extensively. (9 marks)
- i) Spot (3 marks)
 - ii) Forward (3 marks)
 - iii) Swap transaction (3 marks)
- (b) Today spot rate is $IUSD=81.3JPY$ and $IUSD = 1.075$ AND spot rate one year later are $IUSD = 80- JPY$ and $1 USD =1.0803 AUD$. One year rates are 1.0% and 4.5% Australia.
- i) If covered interest rate parity holds, what should be 1 year forward rate. (4 marks)
 - ii) If covered interest rate hold, what should be expected spot rate. (5 marks)
 - iii) Is there an arbitrage opportunity. (2 marks)

QUESTION THREE

- (a) Given that
- 1 CAD = JAP YEN 80.55 – 83.66
 - 1 UK£ = JAN YEN 99.05 – 105

- (i) Compute UK € / CAD bid (5 marks)
- (ii) Compute UK € / CAD offer (5 marks)
- (b) Discuss FIVE major components of the international capital markets. (10 marks)

QUESTION FOUR

- (a) International Finance is a distinct field of study and certain features set it apart from other fields. Discuss FIVE distinguishing features of international finance. (8 marks)
- (b) There are several alternative methods of entering foreign markets that are less risky and also involve a smaller initial outlay than FDI. Explain methods. (8 marks)
- (c) Differentiate between a Eurobond and a global bond. (4 marks)