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**University Examinations 2015/2016**

FOURTH YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE (FINANCE OPTION)

**BFC3429: INTERNATIONAL FINANCE**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Discuss the functions of IMF as an agent of international trade and financial transactions (6 Marks)
2. From an investor’ view, what is the justification for international finance? (5 Marks)
3. Explain two factors that could affect a country’s appeal for Direct Foreign Investment (DFI)

(5 Marks)

1. Explain the phrase “Financial Markets” (5 Marks)
2. On January 10th 2014, Nice Company Ltd anticipates a need for Uganda Shillings (Ugs) on March when it orders supplies from Uganda suppliers. Consequently, Nice Company purchases a futures contract specifying Ugs 100,000 and March settlement date (which is March 19th for this contract).In January 10th , the futures contract is priced at Ksh.0.04 per Ugs. On February 15th 2014, Nice Company realizes that it will not need to order supplies because it has reduced its production levels. There it has no need for Ugs in March. It sells a futures contract on Ugs with March settlement date to offset the contract it purchased in January. At this time, the futures contract is priced Kshs.0.038 per Ugs. Assume the transaction cost does not include margin requirement.

**Required:**

Determine the profit or loss from these transactions (9 Marks)

**QUESTION TWO (20 MARKS)**

1. Explain the following terms as used in international finance. Use examples in each case;
2. Zero coupon bonds (5 Marks)
3. Interest rate parity (5 Marks)
4. Bid-ask spread (5 Marks)
5. Euro-currency (5 Marks)

**QUESTION THREE (20 MARKS)**

1. Explain the following forms of international banking as applied in finance
2. Correspondent banking (4 Marks)
3. Consortium banking (4 Marks)
4. Discuss the reasons that have led to the growth of international banking (12 Marks)

**QUESTION FOUR (20 MARKS)**

1. Kenya wishes to strengthen its currency value relative to the dollar. What development activities should it embank on to enhance this desire? (6 Marks)
2. Kenya’s inflation rate is 10% and inflation rate in UK is 7%. Using purchasing power parity (PPP), forecast what the exchange rate of Kenya Shillings to British pound will be if on 30th April the exchange rate was Shs.117 for one British pound. (6 Marks)
3. A French tourist came to Kenya with Euros 45,000 in traveller’s cheque. She changed her travellers into Kshs. at the spot rate of 78.140/1Euro. The Bank charged 1%. She spent Kshs.300, 000 and left for France. She converted the outstanding amount into Euros at the spot rate of Kshs.80/1 Euro. How much did she take home? (8 Marks)

**QUESTION FIVE (20 MARKS)**

Jane is s speculator who buys Tanzania Shillings (Tas) call option with 31250 units, at a strike price of Kenya Shillings (Kes) 1.40 and a December settlement date. The current spot price as of that date is about Kes 1.39. Jane pays a premium of Kes. 0.012 per unit for the call option. Assume there are no brokerage fees. Just before the expiration date, the spot rate of the Tanzania shillings reaches Kes 1.41. At tis time, Jane exercises the call option and then immediately sell the Tanzania shillings at the spot rate to a bank.

**Required:**

1. Determine Jane’s profit or loss. (8 Marks)
2. While on your visit to Uganda, you notice that a bank quotes 1$=80 Kes, 1$=200 Ugs. The bank offers you 20 Ugs per Kenya Shillings (Kes) you refused the offer and immediately engaged in Triangular Arbitrage. Explain why and how you went about this. (12 Marks)