The Management University of Africa

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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 413: INTERNATIONAL FINANCE

DATE: 25TH MARCH 2025

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

Global Expansion and Currency Risk - ABC Corp

ABC Corp., a US-based manufacturing company, is expanding into European and Asian markets. The company plans to establish subsidiaries in Germany and Japan to cater to local demand. One of the primary concerns for ABC Corp. is how to manage exchange rate risks as the company will be dealing with transactions in euros and yen. ABC Corp. is also looking to raise capital in foreign markets and evaluate foreign investment opportunities.

ABC Corp. has already entered into supply contracts with local suppliers in Europe and Asia. However, due to fluctuating exchange rates, the profitability of these contracts is at risk. The finance team is tasked with devising strategies to mitigate this risk and secure favorable financing arrangements abroad.

ABC Corp. has several financing options available for raising capital in foreign markets: Foreign Bonds (Eurobonds); Foreign Bank Loans; Foreign Equity Offerings; Global Depositary Receipts (GDRs) or American Depositary Receipts (ADRs)

Required:

a) Examine the risks associated with the four financing options available to ABC Corp to raise capital in foreign markets **(10 marks)**

b) Examine six factors that ABC Corp should consider when establishing subsidiaries in Germany and Japan **(6 marks)**

c) Assess six strategies that ABC Ltd should employ in order to manage exchange rate risk it will face in Germany and Japan **(9 marks)**

QUESTION TWO

a) Discuss how multinational corporations (MNCs) can manage exchange rate risk using financial instruments such as forwards, futures, and options. **(6 marks)**

b) Security A is currently trading at $100 per unit. An investor wants to enter into a forward contract that expires in one year. The current annual risk-free interest rate is 6%. The security pays a 50-cent dividend every three months. Determine the forward price for the security. **(9 marks)**

QUESTION THREE

a) Critically analyze why the Purchasing Power Parity Theorem does not always hold in the short run, giving real-world examples. **(8 marks)**

b) Assume that the direct quote is deuchemark is DM 1 - $ 0.5 while the general interest rate in US is 6% and general interest rate in Germany is 3%.

Required:

Determine the percentage change in direct quote and the new exchange rate.

(7 marks)

QUESTION FOUR

a) Explain the concept of Interest Rate Parity (IRP) and how it prevents arbitrage opportunities in international currency markets **(8 marks)**

b) Compare and contrast the theory of comparative advantage and the theory of absolute advantage as theories that explain the basis of international trade

(7 marks)

QUESTION FIVE

a) Analyze three impacts of the 2008 global financial crisis on capital markets, foreign exchange markets, cross-border investments and multinational firms

(8 marks)

b) Assume that the foreign currency (F) has been quoted against the £ as follows:

Spot rate	£1: F2156 – 2166
3 months forward rate	£1: F2207 – 2222

Determine the amount required in sterling pound to buy 1 million foreign currencies

i. At the spot **(3 marks)**

ii. In 3 months' time under the forward exchange contract. **(4 marks)**

QUESTION SIX

a) Analyze two causes and consequences of a persistent Balance of Payments (BoP) deficit for a country's economy. **(8 marks)**

b) Suppose company A is afraid that demand will slow down and affect the price of oil on the market, which will impact its bottom line. The company enters into a futures contract to lock in the oil price at $75 a barrel, believing it will drop in six months.

Required:

Determine whether the futures contract is worthwhile **(7 marks)**