

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: 8TH APRIL 2026

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:

The Evolution and Challenges of the International Monetary System

Background

The International Monetary System (IMS) refers to the framework and rules that govern global financial transactions, exchange rates, and monetary policies between countries. Over time, the system has evolved through various monetary regimes, including the Gold Standard, Bretton Woods System, and the current system of floating exchange rates.

Despite its role in facilitating global trade and financial stability, the IMS faces several challenges, such as currency volatility, trade imbalances, and financial crises. In this case study, we examine the evolution of the IMS, its strengths and weaknesses, and the impact of major financial crises on global monetary policies.

The international monetary system has undergone significant transformations over time, beginning with the Gold Standard (1870s–1914). Under this system, countries pegged their currencies to gold, ensuring price stability and reducing inflation while maintaining a fixed exchange rate. However, it had a major limitation as it restricted monetary flexibility, which ultimately contributed to the Great Depression.

Following the economic disruptions caused by World War II, the Bretton Woods System (1944–1971) was established, pegging global currencies to the US dollar, which in turn was convertible to gold. This system aimed to promote financial stability and led to the creation of key international financial institutions, including the International Monetary Fund (IMF) and the World Bank. Despite its initial success, the system collapsed in 1971 when the United States abandoned the gold standard due to excessive inflation and growing trade imbalances.

In the aftermath of Bretton Woods, the world transitioned to the Floating Exchange Rate System (1973–Present), where currency values are determined by supply and demand in foreign exchange markets. This approach allows greater monetary policy flexibility and enables automatic trade adjustments. However, it also introduces exchange rate volatility, which can impact global trade and investment stability.

In recent years, the international monetary system has continued to evolve, with several emerging trends shaping its future. The rise of regional monetary unions, such as the Eurozone, has strengthened economic integration among member states. Additionally, digital currencies and Central Bank Digital Currencies (CBDCs) have gained attention as governments and financial institutions explore alternatives to traditional currency systems. Meanwhile, China's Yuan (CNY) has been expanding its influence in global trade, posing a challenge to the long-standing dominance of the US dollar in international financial transactions.

As the global economy continues to evolve, these developments will play a crucial role in determining the future stability and effectiveness of the international monetary system.

Required:

- a) Assess two reasons why the Gold Standard and Bretton Woods systems failed and the lessons that can be learned for today's international monetary policies. **(5 marks)**
- b) Discuss the benefits and drawbacks of the floating exchange rate system and its impact on global trade and investment. **(5 marks)**
- c) Examine the role and criticisms that institutions like the IMF and World Bank play in stabilizing the international monetary system. **(5 marks)**
- d) Examine how the dominance of the US dollar as the global reserve currency benefits and challenges the international monetary system. **(5 marks)**
- e) Assess the potential impacts of digital currencies on the future of the International Monetary System. **(5 marks)**

QUESTION TWO

- a) Examine how multinational corporations (MNCs) effectively manage exchange rate risk using financial instruments **(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) Citing relevant examples, examine three reasons how Purchasing Power Parity (PPP) Theorem does not always hold in the short run. **(8 marks)**
- b) Calculate the percentage change in the Direct Quote and New Exchange Rate if 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% **(7 marks)**

QUESTION FOUR

- a) Evaluate how Interest Rate Parity (IRP) prevents arbitrage 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) Assess three major impacts of the 2008 global financial crisis on capital markets, foreign exchange markets, and multinational firms. **(8 marks)**
- b) Calculate the amount required in Sterling Pounds given the following quote:
Spot Rate: £1: F2156 - 2166
Forward Rate: £1: F2207 - 2222
- i. At the Spot Rate **(3 marks)**
- ii. In 3 Months (Forward Rate at Ask Price F2222) **(4 marks)**

QUESTION SIX

- a) Examine two causes and consequences of a persistent Balance of Payments (BoP) deficit **(8 marks)**
- b) Suppose company you foresee a drop in demand that will slow down and affect the price of oil on the market, which will impact your bottom line. You enter into a futures contract to lock in the oil price at \$75 a barrel, believing it will drop in six months. Evaluate the Futures Contract on Oil at \$75 **(7 marks)**