The Management University of Africa

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POST GRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BFO 507: INTERNATIONAL FINANCIAL MANAGEMENT

DATE: 31ST JULY 2026

DURATION: 3 HOURS

MAXIMUM MARKS: 60

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TW0** questions.
6. Question **ONE** carries **30 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:

An American multinational is planning to set up a subsidiary in Kenya (where hitherto it was exporting) in view of the growing demand for its product and the competition from other MNCs. The initial project cost (consisting of plant and machinery including installation) is estimated to be US dollar 400 million; working capital requirements are estimated at $ 50 million. The American multinational follows the straight-line method or depreciation. Currently, it is exporting 2 million units every year at a unit price of US dollar 80, its variable cost per unit being US dollar 40.

The chief finance officer (CFO) of the firm has estimated, with respect to the project cost (measured in US dollars) as follows: (i) variable cost of production and sales, $ 20 per unit, (ii) additional fixed costs per annum at $ 30 million and the share of allocated fixed costs, $ 3 million, (iii) capacity of the plant set up in India is, to produce and sell 4 million units, (iv) the expected economic useful life of the plant is 5 years, with no salvage value, and (v) the firm's existing working capital investment in production and sales of 2 million units was $ 10 million.

The finance manager's report also mentions that exports will decrease to 1.5 million units in case the firm does not open the subsidiary in view of the presence of competing MNCs that are in the process of setting up their subsidiaries in Kenya. The US multinational is subject to 35 per cent corporate tax rate and its required rate of return for such projects is 12 per cent. Assume that there will be no variation in the exchange rate between the two countries and that all profits can be repatriated without withholding taxes.

Required:

a) Compute the Incremental cash outflows for the venture **(4 Marks)**

b) Calculate the Incremental cash inflows of the venture **(6 Marks)**

c) Determine the NPV of the Undertaking (**10 Marks)**

d) Advise this multinational regarding the financial viability of having a subsidiary in Kenya. **(4 Marks)**

e) Assess three causes of capital flight from developing countries. **(6 Marks)**

QUESTION TWO

GlobalTech Manufacturing Ltd is a multinational company headquartered in Kenya with subsidiaries in the United States, Germany, China, and South Africa. The company imports raw materials from different countries and exports finished products to international markets. Recently, fluctuations in exchange rates, varying tax regimes, political uncertainties, and differing economic conditions across countries have affected the company's profitability and investment decisions. The finance manager has been tasked with understanding the unique challenges of international financial management and its role in facilitating global trade and economic interactions.

Required

a) Discuss two important distinguishing features of international financial management from domestic financial management. **(5 M**

b) International financial management plays a critical role in international trade and inter-economy exchange of goods and services. Examine five reasons for these**.** **(10 Marks)**

QUESTION THREE

AfriInvest Capital Ltd is an international investment company managing portfolios in Europe, Asia, Africa, and North America. The company seeks to maximize shareholder wealth through investments in foreign equity markets and by raising capital from both domestic and international financial markets. However, management has observed that returns from international investments vary significantly across countries due to economic, political, and financial market conditions. The company is also evaluating whether to source additional funds from Euromarkets or domestic financial markets to support future expansion plans.

Required:

a) Assess any two factors that affect international equity returns. **(5 Marks)**

b) Discuss five factors to consider when choosing between Euromarkets and domestic markets.

QUESTION FOUR

TransWorld Holdings Plc is a multinational group with business operations in Europe, Asia, Africa, and the Americas. The company receives revenues and incurs costs in several foreign currencies, including the US Dollar, Euro, Japanese Yen, and British Pound. In recent years, fluctuations in exchange rates have created uncertainty regarding the value of future cash flows, foreign assets, and consolidated financial statements. Consequently, management has retained a financial consultant to advise on the various forms of foreign exchange exposure and recommend appropriate strategies for managing foreign exchange risk.

Required:

a) Examine three types of foreign exchange exposure.
(6 Marks)

b) Advise on policies which the finance manager could consider to provide valid and relevant methods of reducing exposure to foreign exchange risk. **(9 Marks)**