

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: 29TH JULY 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 Republic of Kalena's Economic Dilemma

The Republic of Kalena is a small emerging economy in East Africa. For the past five years, Kalena has experienced a persistent current account deficit. In 2025, the deficit reached 8% of GDP, triggering concerns among international investors and credit rating agencies. The local currency, the Kalenian Shilling (KAS), has depreciated by 25% against the US dollar over the past 12 months.

Key Economic Data for Kalena (2025):

Balance of Payments Component	Amount (USD millions)
Exports of Goods	2,500
Imports of Goods	4,800
Exports of Services (tourism, transport)	800
Imports of Services (banking, insurance)	600
Investment Income Received (dividends, interest)	200
Investment Income Paid (dividends, interest)	500
Remittances from citizens abroad (inflows)	1,200
Foreign Aid Received (grants)	300
Foreign Direct Investment (FDI) Inflows	900
Portfolio Investment Outflows (citizens buying foreign stocks)	400
Short-term Bank Loans Received	600
Change in Official Foreign Reserves (negative = decrease)	-300

Additional Information:

- Kalena's central bank has limited foreign reserves (only 3 months of import cover).
- The government is considering approaching the IMF for a bailout program.
- Local businesses are struggling to pay for imported raw materials due to the depreciating currency.
- Politicians are divided: some argue for devaluation, others for import controls.

Required:

- a) Compute Kalena's Current Account Balance for 2025 using the data provided, showing all workings, and determine whether the current account is in surplus or deficit.

(5 marks)

- b) Compute Kalena's Overall Balance of Payments (including the financial/capital account and reserve changes), showing all workings, and assess whether the overall balance roughly equals zero as accounting requires, explaining any discrepancy.

(6 marks)

- c) Analyze three possible causes of Kalena's persistent current account deficit based on the data and scenario provided, explaining the economic mechanism for each cause.

(6 marks)

- d) The government is considering three policy options to address the deficit:

Option 1: Devalue the currency

Option 2: Impose import controls (tariffs and quotas)

Option 3: Approach the IMF for a structural adjustment program

Evaluate the options available to Kalena's government, considering their advantages and disadvantages, and justify which option should be adopted.

(8 marks)

QUESTION TWO

- a) The government of Kalena has decided to approach the IMF for a loan. However, civil society organizations are protesting, arguing that IMF programs have caused suffering in other countries.

Required:

- i. Discuss four criticisms that opponents of IMF lending programs typically raise. For each criticism, explain the specific concern.

(4 marks)

- ii. The IMF has proposed a Structural Adjustment Program (SAP) for Kalena. Analyze three characteristics of SAPs and explain one (1) potential negative effect on Kalena's local population.

(6 marks)

- b) Kalena's Treasury is exploring international financial markets to raise foreign currency.

Required:

Classify three types of international financial markets that Kalena could access to borrow or attract investment.

(5 marks)**QUESTION THREE**

- a) Sarah is a Kenyan investor with Ksh 100,000 to invest. She is considering two international bond options:

Bond	Term (Years)	Annual Coupon Rate	Risk Level
Bond A (US Treasury)	4 years	7%	Low
Bond B (Kenyan Eurobond)	6 years	9%	Moderate

Required:

- i. Compute the maturity value (future value) of each bond assuming annual compounding and reinvestment of all coupon payments.

(4 marks)

- ii. Based solely on the maturity value calculation, which bond would you recommend? Justify your answer.

(3 marks)

- b) Analyze four characteristics of international financial capital flows and explain how each might affect an emerging economy like Kenya.

(8 marks)

QUESTION FOUR

Mambo Enterprises Ltd, a Kenyan company, has just made a sale to a US customer for USD 500,000. The payment will be received in 90 days. Mambo's cost of producing the goods was Ksh 45,000,000. The company is concerned about exchange rate fluctuations.

Current Market Data:

- Current Spot Rate (Ksh/USD): Ksh 120.00 per USD
- 90-day Forward Rate (Ksh/USD): Ksh 122.50 per USD
- Kenyan 90-day interest rate: 12% per annum (3% for 90 days)
- US 90-day interest rate: 4% per annum (1% for 90 days)
- Mambo can take a 90-day bank loan in Ksh at 12% per annum

Required:

- a) Calculate the amount in Kenyan Shillings Mambo would receive if they:

- i. Do nothing and convert at the spot rate in 90 days (assuming rate remains at 120.00).

(2 marks)

- ii. Sell USD 500,000 forward using the 90-day forward rate.

(2 marks)

- b) Mambo is considering a money market hedge. Demonstrate how they would execute this hedge. Show the step-by-step process and calculate

the final amount in Ksh they would receive.

(5 marks)

- c) Apply the Interest Rate Parity (IRP) formula to determine whether the 90-day forward rate of 122.50 is fairly priced given the interest rate differential. Calculate the theoretical forward rate and compare it to the actual forward rate. **(4 marks)**
- d) Based on your analysis in (a), (b), and (c), recommend the best hedging strategy for Mambo Enterprises. Justify your recommendation. **(2 marks)**

QUESTION FIVE

- a) The East African Community (EAC) is progressing toward deeper economic integration. Currently, it operates as a Customs Union and is moving toward a Common Market. Some policymakers argue for a full Monetary Union with a single currency.

Required:

Compare and contrast the following levels of economic integration:

- i. Free Trade Area (FTA) and Customs Union.
(3 marks)
 - ii. Common Market and Economic/Monetary Union.
(3 marks)
- b) Tanzania, an East African Country, is experiencing a balance of payments deficit. Recommend two policy tools that Tanzania could use to address its deficit.
(3 marks)
- c) Some economists have suggested that Kenya should adopt a fixed exchange rate peg to the US dollar to promote trade stability. Assess

two key benefits of a fixed exchange rate peg for Kenya and one significant risk associated with this regime.

**(6
marks)**

QUESTION SIX

a) You are an economic advisor to the Kenyan Ministry of Trade. The Cabinet Secretary has asked you to prepare briefing notes on fundamental trade concepts.

Required:

- i. Evaluate the relevance of Absolute Advantage and Comparative Advantage theories in explaining modern trade patterns, using a numerical example to justify your evaluation.
(4 marks)
 - ii. Assess three criteria of an effective international monetary system and justify their importance for sustaining global trade.
(3 marks)
 - iii. Analyze the implications of managed floating versus pegged exchange rate regimes, illustrating with country examples how each affects economic stability.
(3 marks)
- b) Compute the value in Kenyan shillings (KES) of USD 2,500, given an exchange rate of 1 USD = 130 KES. Show all your workings, and state the final amount clearly.
(5 marks)