MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2018/2019 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER

SCHOOL OF BUSINESS & ECONOMICS
BACHELOR OF BUSINESS MANAGEMENT

COURSE CODE: BBM 415

COURSE TITLE: INTERNATIONAL FINANCE

DATE: 23RD APRIL 2019 **TIME: 0830 - 1030 HRS**

INSTRUCTION TO CANDIDATES

ANSWER QUESTION ONE and ANY other THREE

Question one

a) Compare and contrast forward markets and future markets **(5 marks)**
b) Discuss any five factors that affect direct foreign investment **(5 marks)**
c) Using an illustration distinguish between direct quotation and indirect quotation **(2 marks)**
d) Clearly describe five factors that influence currency quotations (**5 marks)**
e) A French exporter Peter is to receive DM 2.0M in 6 months.

Exchange rates are:-

Spot: FF 3.3974/DM

6months Forward FF: 3.3465/DM

i) There is fear that DM will depreciate in the near future. What should he do? **(4 marks)**

ii) What would you suggest to peter in case appreciation of DM is likely to take place? **(3 marks)**

Question Two

a) Hampton Investment Co. is a U.S. firm that executes a carry trade in which it borrows Euros and invest ion British Pounds. Hampton uses $100,000 of its own funds and borrows an additional euros. It will pay 0.5% on its euros borrowed for next month and will earn 1% on funds invested in British pounds. Assume that the euros spot rate is $1.20 and the British pound spot rate is $1.80. What is Hampton's expected profit from its carry trade. **(10 marks)**
b) b) Suppose the euro appreciated by 3% over the month against both the pound and the dollar. What will be the profit of the carry trade? **(5 marks)**

Question Three

a) Distinguish between a call option and a put option. **(5 marks)**

b) Assume the following information call option premium on Canadian dollars

(C$) = $ 0.01 per unit

Strike Price = $ 0.70

One Canadian dollar option contract represent C$ 50 000.

A speculator who had purchased this call decided to exercise the option shortly before expiration date, when the spot rate reached $ 0.74. The speculator the immediately sold the Canadian dollar in the spot market. Calculate speculators net profit (loss) **(10marks)**

Question Four

a) Clearly discuss five common approaches used by investors attempting international stock diversifications **(10 marks)**

b) Kenya engaged itself in a Euro bond. From investors perspective what five forms of risks would Kenya experience **(5 marks)**

Question Five

a) Clearly describe Five factors that would affect international Portfolio investment in Kenya **(10 marks)**

b) A variety of agencies have been established to facilitate international trade and financial transactions. Describe any five of these agencies. **(5 marks)**

//END