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)**

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