# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATION DECEMBER-2018**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS**
**UNIT CODE: HCOB 2437**
**UNIT TITLE: INTERNATIONAL FINANCE**

**DATE: DECEMBER, 2018** **TIME:**

**INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

**QUESTION ONE**

(a) Describe the law of one price and its impediments with regards to smuggling of goods between the Kenyan and Ugandan border (4 marks)
(b) Discuss the benefits of internationalization of firms with respect to Kenya blue chip firms (4 marks)
(c) Describe non-contractual or internal methods of hedging against transaction exposure (4 marks)
(d) Distinguish between absolute and relative purchasing power parity (2 marks)
(e) Distinguish between money market hedge and currently forward contract (2 marks)
(f) Describe the different types of exchange systems (3 marks)
(g) Distinguish between a direct quote and indirect quote (2 marks)
(h) Enumerate the merits of a strong currency (5 marks)
(i) A Kenyan manufacturing firm wishes to purchase $400,000 to pay for acquisition of equipment from USA firm. The Kenya firm approached a commercial bank and was given a bid ask quote of kshs 102.4:$1-kshs 105:$1. The bank also imposed a transaction cost of Kshs 10,000 per transaction

**Required:**
Compute the amount payable by the Kenyan firms to purchase the USD (4 marks)

**QUESTION TWO**

(a) Suppose the exchange rate today is Kshs 140/£ after 3 months
**Required:**
Describe the strategy that the investor can employ to yield profits and compute the profits (4 marks)
(b) Suppose there are Two commercial banks A and B with the following exchange rates:

| | **Bid** | **Ask** |
|---|---|---|
| Bank A | Kshs 100.2/$ | Kshs100.9/$ |
| Bank B | Kshs 101.5/$ | Kshs 102/$ |

**Required:**
Advice an investor who has Kshs 500,000 about the strategy and exactly how he or she can generate profits

(c ) Suppose in UK the interest rates prevailing are 1.5% and those in Kenya are 11.5% the spot exchange rate between the sterling pounded the Kenya Shilling is Kshs 145/£. An investor has £million to invest for a period of 3 months and wishes to exploit the high interest rates in Kenya without risking FOREX losses

**Required:**
Advice an investor on the strategy to employ and exactly how to profit from the interest rates differential (6 marks)

(c) Suppose the spot exchange rates at the beginning of July 2016 were as follows in Bank A:Ksh 77.1/CAD and Tsh.1724/CAD while in Bank the sport exchange rate is Tsh 21.7/shs and investor has Tsh15 million

**Required:**
Advice the investor on the strategy to employ and exactly how to profit from the mispricing opportunity (6 marks)

## QUESTION THREE

(a) ABC Ltd is foreign subsidiary of cadbury's that is based in Kenya and as at 30th June 2016 the firm showed the following balance sheet when the exchange rate was Kshs

| | $Million |
|---|---|
| Non-current assets | 6,000 |
| Accounts receivable | 2,000 |
| Inventory | 6,300 |
| Cash and bank | 4,500 |
| | 18,800 |
| Bank overdraft | 600 |
| Accounts payable | 3,000 |
| Long term loan | 5,400 |
| Ordinary share capital | 9,800 |
| | 18,800 |

**Required:**
Translate the balance sheet of ABC Ltd using

i. Current/non-current method (5 marks)
ii. Current rate method (5 marks)

(b) The beginning of year consumer price index (CPI) of Kenya and Uganda as follows: in Kenya 167 and in Uganda 158. After 2 years the CPI in Kenya is expected to be 180 while in Uganda it is expected to be 165. The spot rate between the two countries is Ush33.1./ksh

**Required:**

i. Compute the inflation rates in Kenya and Uganda
ii. Determine the future rate (5 marks)

(c) Suppose the interest rates in Kenya are 12% and in Tanzania are 15% while the spot rate is Tsh 21.7/ks

**Required:**
Compute the expected spot rate and the end of 2 years (3 marks)

(d) Distinguish between international fisher effect and interest rate parity (2 marks)

## QUESTION FOUR

(a)
(b)

## QUESTION FIVE

(a)
(b)