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UNIVERSITY EXAMINATIONS 2024/2025

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF COMMERCE

BFC 3429: INTERNATIONAL FINANCE

DATE: JANUARY 2025 **TIME: 2 HOURS**

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

a) Distinguish between forward and future contracts. (8marks)

b) An avocado farmer in Meru county is worried that the upcoming elections in USA may lead to dollar rate fluctuation and hence diminish his export earnings. During the last season, he exported products worth Ksh 2,600,000. His payment expected to be in US dollars, will be made three months from now. The current rate of exchange is Ksh 141/$. He opts to buy a three months forward with his local bank at the rate of Ksh 142.40/$. It happens that in three months' time the dollar spot rate is Ksh.141.80. calculate the export position. (8marks)

c) How are options different from futures (6marks)

d) A wheat farmer buys a put option to sell 150 bags of wheat to a miller in Kisimani. Currently a bag of wheat is goinf for Ksh 3300/=. The price of a call to buy one bag of wheat is Ksh 100. Determine the payoff if the farmer takes either of the two options.

i. Buys a call option

ii. Takes his produce to the market to sell at the prevailing market price.

Nb: on maturity date, wheat is retailing at Ksh. 3100/bag (8marks)

QUESTION TWO (20 MARKS)

a) Identify varius players in the foreing exchange market, clearly stating the role of each. (12marks)

b) A Juakali artisan wishes to import a fabricating machine so as to mechanise his operations. The machine is invoiced at sh 1,350,000. The necessary documentation, shipping and invoicing shall be complete in 90 days time. He therefore wishes to hedge the amount of Kenya shillings he shall need to make the payment that shall be due in 90 days.

Determine how he can use the money market hedge to manage the exchange exposure if the annual interest rate is 12% in the Kenyan Money market. (8marks)

QUESTION THREE (20 MARKS)

a) What are the implication of a deficit in a country's Balance of payments (10marks)

b) Describe various factors that have an influence on exchange rates (10marks)

QUESTION FOUR (20 MARKS)

a) How do SWAPs work in currency exchange management (6marks)

b) A Kenyan Company has agreed to sell goods to a processor in Europe. The goods are worth GBP200,000. This amount is expected to be received in three instalments thus Ksh.80,000 now, Ksh 60,000 in one months' time and the last Ksh 60,000 in three months' time. The company management contemplates buying a forward contract. The company's bank has provided the following;

Period	Ksh/GBP	Ksh/GBP
Spot rate	189.0	169.20
One month forward rate	163.7	169.00
Three months forward rate	168.0	198.70

The company has decided to enter into the forwards agreement in order to hedge their receipts;

Required;

i. Calculate the amount in Ksh that the Kenya company will receive in total (8marks)

ii. Calculate the amount in Ksh that the company would have received if they never hedged (8marks)

QUESTION FIVE(20MARKS)

a) Suggest to a local manufacturer various ways he can internationalize his operation (10marks)

b) How can Foreign Direct Investment impact on a country's economic performance (10marks)