



**National University of  
Science and Technology**  
Think in Other Terms



**FACULTY OF COMMERCE  
DEPARTMENT OF FINANCE  
BACHELOR OF COMMERCE IN FINANCE  
1<sup>st</sup> SEMESTER FINAL EXAMINATION - DECEMBER 2014  
INTERNATIONAL FINANCE I [CFI 4102]  
TIME ALLOWED: THREE (3) HOURS**

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**Instructions to Candidates**

1. Answer any **FOUR (4)** questions.
2. Questions may be written in any order, but must be legibly numbered.
3. Start the answer to each full question on a fresh page of the answer sheet.
4. Write legibly.

**Information for candidates**

1. This paper contains SIX (6) Questions.
2. This paper contains FOUR (4) printed pages including cover page.
3. The businesses in this question paper are intended to be fictitious.
4. All questions carry equal marks [25 marks].

### QUESTION ONE

a) Explain any three international business opportunities that have accounted for the rapid growth of international business that has been witnessed in recent years.

**(9 marks)**

b) A multinational corporation desires to penetrate a foreign market with either a licensing agreement with a foreign firm or acquisition of a foreign firm. Explain the differences in potential return and risk between a licensing agreement with a foreign firm, versus the acquisition of a foreign firm. **(4 marks, 4 marks)**

c) Explain how the agency problem of a multinational corporation would be more pronounced compared to that of a purely domestic firm. **(8 marks)**

**[TOTAL 25 MARKS]**

### QUESTION TWO

a) Explain the three accounts of balance of payment, clearly stating what each account is composed of. **(9 marks)**

b) Identify and justify reasons for multinational corporations to consistently trace the balance of payment positions for the countries in which they have subsidiaries.

**(16 marks)**

**[TOTAL 25 MARKS]**

### QUESTION THREE

Robin Bank, which is based in Zimbabwe, expects that the Botswana Pula (BP) will depreciate against the dollar from its spot rate of \$0.15 to \$0.14 in 10 days. The following interbank lending and borrowing annual rates exist:

	Lending rate	Borrowing rate
US\$ rates	8.0%	8.3%
Botswana Pula rates	8.5%	8.7%

Assume Robin Bank has a borrowing capacity of either US\$10 million or BP70 million in the interbank market, depending on which currency it wants to borrow.

- a) What is a covered interest rate arbitrage? **(1 mark)**
- b) How would Robin Bank attempt to capitalise on its exchange rate expectations without using its own depositors' funds and estimate the profit that could be generated from such a strategy? **(12 marks)**
- c) Assume that the above information still prevails, except that this time Robin Bank expects the Botswana Pula to appreciate from its current spot rate of \$0.15 to \$0.17 in 30 days. How would Robin Bank attempt to capitalise on its exchange rate expectations without using its own depositors' funds? Estimate the profit that could be generated from such a strategy. **(12 marks)**

**[TOTAL 25 MARKS]**

#### **QUESTION FOUR**

With the aid of relevant examples, explain the following terms or phrases used in international financial markets:

- a) The effective annual cost (EAC) of a Eurocurrency loan. **(5 marks)**
- b) Multicurrency loan clause. **(5 marks)**
- c) Loan syndication. **(5 marks)**
- d) Loan drawdown. **(5 marks)**
- e) Loan fee commitment. **(5 marks)**

**[TOTAL 25 MARKS]**

#### **QUESTION FIVE**

Identify and explain the main reasons for the differences in the lending and deposit rates between purely domestic financial markets and the Eurocurrency financial markets. **(25 marks)**

**[TOTAL 25 MARKS]**

## **QUESTION SIX**

- a) Discuss any two theories of foreign direct investment. **(6 marks)**
- b) Explain the role, procedures and tools used by most countries' investment promotion agencies. **(3; 3; 3 marks)**
- c) Giving relevant examples, critically evaluate the trend in terms of the major changes in strategy and policy focus adopted by the majority of countries in their approach to investment promotion in recent years. **(10 marks)**

**[TOTAL 25 MARKS]**

**END OF EXAMINATION PAPER**