

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**FACULTY OF COMMERCE**  
**DEPARTMENT OF FINANCE**  
**BACHELOR OF COMMERCE HONOURS DEGREE IN FINANCE**  
**PART IV 2<sup>ND</sup> SEMESTER FINAL EXAMINATION – MAY 2006**  
**INTERNATIONAL FINANCE II [CFI 4202]**  
**TIME ALLOWED: 3 HOURS 10 MINUTES**

**INSTRUCTIONS**

1. **THE PAPER IS 3 HOURS 10 MINUTES, OF WHICH 10 MINUTES IS READING TIME.**
2. **ATTEMPT ALL QUESTIONS**
3. **ALL QUESTIONS CARRY EQUAL MARKS [25 MARKS]**
4. **WRITE LEGIBLY**

**Question One**

**[25 marks]**

- (i) Suppose that a foreign project has beta of 0,85, the riskfree return is 12%, and the required rate of return on the market is estimated at 19%. Calculate the cost of capital of the project. **[2 marks]**
- (ii) What factors should be considered in deciding whether the cost of capital for a foreign affiliate should be higher, lower, or the same as the cost of capital for a comparable domestic corporation. **[9 marks]**
- (iii) “Despite the clear shift toward a more sophisticated international capital market in recent years, some observers claim we do not yet have a global capital market”. Debate this statement. **[14 marks]**

**Question Two**

**[25 marks]**

- (i) During the year, the Yamaha Company shares rose from ¥9,000 to ¥11,000, and paid a dividend of ¥60. The exchange rate during the period moved from ¥/\$145 to ¥/\$120.  
  
Calculate the total percentage dollar return on Yamaha’s stock for the year. **[4 marks]**
- (ii) The standard deviation of the US and Japanese returns over the period were 12,7% and 29,7%, respectively. The correlation between the US and Japanese markets over the same period was 0,34. Assuming that these data reflect the future, determine the beta for the Japanese market relative to the US market.  
  
Comment on how this information might be useful when considering an investment in Japan. **[6 marks]**

- (iii) The increase in share ownership has occurred in tandem with the exponential growth of the Multinational Corporations [MNCs], so much so that companies like Sony, Microsoft and Coca-Cola are household names in virtually every country around the globe. Not surprisingly, investors wonder if buying stock in an MNC is a simpler means of internationally diversifying their share portfolios than purchasing foreign stock directly. Is this statement question relevant for investors in Zimbabwe, many of whom entered the share market courtesy of floats of parastatals authorities, such as Dariboard Zimbabwe Ltd, and more recent demutualisation by insurance companies? **[15 marks]**

**Question Three** **[25 marks]**

- (i) Discuss the application, usefulness and limitations of the Capital Asset Pricing Model [CAPM] in determining strategy in the following international financial management operations:
- a. Making portfolio investments in international financial markets. **[7 marks]**
  - b. Setting the cost of capital for foreign direct investment projects. **[7 marks]**
  - c. Assessing and quantifying the risks in international projects and ventures. **[7 marks]**
- (ii) “Internationally diversified portfolios are both **similar** and **different** from domestically diversified portfolios”. Demonstrate the validity of this statement. **[4 marks]**

**Question Four [A] and [B]** **[25 marks]**

**Answer EITHER [A] OR [B]**

- (A)** Recount how the American Depository Receipts [ADRs] programmes could result into a lower cost of capital for an issuing company domiciled in an emerging market. **[25 marks]**

**OR**

- [B]** Despite the recent trend toward a greater integration of International Capital markets, investors in the US and other countries display a rather strong “home bias” in their portfolio. Does this imply that there still exist significant barriers to international investors? **[25 marks]**

**GOOD LUCK!!!!!!**