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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE IN BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 9th April, 2019
Time: 8.30am – 10.30am

KFI 400 - INTERNATIONAL FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Define international finance and explain its significance. (6 Marks)
- b) The World Bank advance loans to member countries in various ways. List and explain briefly. (6 Marks)
- c) In detail explain the three broad areas that IMF provides technical assistance. (6 Marks)
- d) Differentiate between fixed exchange rate and floating exchange rate. (4 Marks)
- e) Assume the Kenya interest rates fall relative to Tanzania interest rates. Other things being equal, how should this affect the:
- i) Kenya demand for Tanzania shillings (2 Marks)
- ii) Supply of Tanzania shilling for sale (2 Marks)
- f) Discuss two common methods that firm use conduct international business. (4 Marks)

QUESTION TWO (20MARKS)

- a) The foreign exchange market is a market in which foreign exchange transactions take place. In other words, it is a market in which national currencies are bought and sold against one another. Discuss the three functions performed by these forex markets. (6 Marks)
- b) Explain characteristics and participants of the foreign exchange market. (8 Marks)
- c) Discuss the purpose of the World Bank is laid down in its Articles of agreement. (6 Marks)

QUESTION THREE (20MARKS)

- a) Broadly, there are two important exchange rate systems, namely the fixed (stable) exchange rate system and floating (flexible) exchange rate regime/system. Discuss the Argument for both. (10 Marks)
- b) Discuss the three commonly held theories as to why firms become motivated to expand their business internationally. (6 Marks)
- c) Why might agency costs be larger for MNCs as opposed to purely domestic firm. (4 Marks)

QUESTION FOUR (20MARKS)

- a) Exchange rate is simply the price of one currency in terms of another. There are two methods of expressing exchange rate:-
- i) Foreign exchange units per unit of the domestic currency. For example, taking the Kenya Shilling as the domestic currency, we can have approximately Kshs. 85.6 required to Purchase one US dollar (Kshs. 85.6/\$1)
- ii) Foreign units per unit of domestic currency. Again taking Kenya Shillings as a domestic currency, we can have approximately \$0.01162/Kshs.1 required to obtain one pound. What factors affect exchange rate. (10 Marks)
- b) The decision to invest capital in a project abroad should be based upon consideration of expected return and risk just like investing locally. However, these factors are different in different countries. Discuss reasons for foreign investment (6 Marks)
- c) Explain the Significance of foreign investment in today's economy. (4 Marks)

QUESTION FIVE (20MARKS)

- a) Multinational corporations are firms that engage in some form of international business either exporting products or establish subsidiaries in foreign countries. Explain how adoption of the single currency by African countries could be beneficial to MNCs based in Africa and MNCs based in the rest of the world. (10 Marks)
- b) The IMF's statutory purposes include promoting the balance expansion of world trade, the stability of exchange rates, the avoidance of competitive currency devaluations, and the orderly correction of a county's balance of payments problems. Discuss the purpose of this institution. (10 Marks)