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University Examinations 2024/2025

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF SCIENCE IN FINANCE

BFS 3400: GLOBAL FINANCIAL MANAGEMENT

DATE: JANUARY 2025

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *three* questions

QUESTION ONE (30 MARKS)

- a) Multinationals are often affected by the movement of the exchange rate, both positively and negatively. Discuss the main factors that affect the Exchange rate. (10 marks)
- b) International financial institutions (IFIs) provide loans for development and financial cooperation throughout the world. Discuss the functions of the International Monetary Fund (IMF) (10 marks)
- c) Assume that the following information has been obtained from Rumi PLC:

$$P = \$20$$

$$X = \$20$$

$$t = 3 \text{ months}$$

$$K_{RF} = 12\%$$

$$\delta^2 = 0.16$$

Determine the value of the option

(10 marks)

QUESTION TWO (20 MARKS)

The following is the existing capital structure of Company XYZ Ltd.

Ordinary shares at £10 par	
Retained	800,000
12% preference shares £10 par	400,000
16% loan £100 par	<u>300 000</u>
Total capital employed	<u>2,500,000</u>

The company's ordinary shares have a dividend cover of 3 times and pays a dividend of 10% on its ordinary share capital.

Ordinary shares sell at £18

Preference shares sell at £15

Debentures are selling at par. The tax rate is 30%

Compute

W.A.C.C.

(15 marks)

- b) Explain why proper working capital management is important for the financial success of a Multinational company. (5 marks)

QUESTION THREE (20 MARKS)

- a) Gressi International Ltd requires 2,000 units of a component in its sambuswa manufacturing process in the coming year which costs \$50 each. The items are available in Congo and the lead-time is one week. Each order costs \$50 to prepare and process while the holding cost is \$15 per unit per year for storage plus 10% opportunity cost of capital.

Required

- a) How many units should be ordered each time an order is placed to minimize inventory costs? (3 marks)
- b) What is the reorder level? (3 marks)
- c) How many orders will be placed per year? (3 marks)
- d) Determine the total relevant costs. (3 marks)
- b) From the point of view of a Multinational company's financial manager, outline the merits and demerits, to the company, of raising capital from the international financial markets (8 marks)

QUESTION FOUR (20 MARKS)

- a) Exchange rate exposure is the extent to which a firm is exposed or vulnerable to fluctuations in exchange rate, discuss the contractual and non-contractual techniques of dealing with the transaction exposure. (15 marks)
- b) Assume that the following quotation is given:
- | | |
|-------------------|--------------------------|
| Spot rate | £1: \$1.635 - \$ 1.6385 |
| One month forward | 0.5 — 0.47 cents premium |

Required:

Compute the cost of the forward cover for a customer

- i. Buying dollars 1 month forward.
- ii. Selling dollars one month forward. (5 marks)

QUESTION FIVE (20 MARKS)

- a) An investment into a foreign firm is considered a Foreign Direct Investment if it establishes a lasting interest. Discuss the advantages and disadvantages of FDI (10 marks)
- b) Discuss the main challenges that face Multinational corporations in their quest to raise capital internationally. (10 marks)
- c) The world's economy is connected through global trade accords. Discuss the importance of import and export financing to the Importer and the exporter (10 marks)