



CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
MSC ACCOUNTING AND FINANCE
END OF SECOND SEMESTER EXAMINATIONS – 2018/19 ACADEMIC YEAR
LEVEL 500
MACF 508: INTERNATIONAL FINANCE

MAY, 2019

60 MARKS

TIME ALLOWED: 3 HOURS

GENERAL INSTRUCTIONS TO CANDIDATES:

- Answer any **four** questions. All questions carry equal marks of 15 each.
- Write your index number on top of the question paper and every page of the answer booklet used.

Examiner: Joyce Ama Quartey

Question 1

- a). The last two decades have witnessed an increasingly interconnected financial economies around the world. Financial globalization has therefore offered substantial benefits to the national economies and to both investors and wealth creators. Discuss **four** factors that have played an important role in financial globalization. **4 marks**
- b). Good governance plays an important role in promoting stock market participation and trading activity. Examine **four** factors that can allow stronger governance and therefore increase the trading activity in stock markets. **6 marks**
- c). Blankson Inc. considered expanding its operations and requires \$10 million injection into its business for a one-year period. There are 2 options available to the corporation, (1) borrowing Canadian dollar at an interest rate of 4% or (2) borrowing Indian Rupee at an interest rate 6% or (3) borrowing Israeli New Shekel at an interest rate of 5%. Blankson Inc. expects that the Canadian dollar will appreciate by 2% over the next year and the Indian Rupee will appreciate by 3%. The Israeli New Shekel is expected to remain stable. Determine the expected "effective" financing rate for each of the three options. Which option appears to be most feasible? **5 marks**

Question 2

- a). While managers are hired to run the company for the interests of shareholders, there is no guarantee that they will actually do so. Agency problem is therefore, common with MNCs. Why might agency costs be larger for an MNC than for a purely domestic firm? **4 marks**
- b). Examine three major ways by which agency problems could be solved. **8 marks**
- c). Sharon Ford Com. can borrow €85,450,080 at LIBOR plus a lending margin of 1.25 percent per annum on a four-month rollover basis from Stanchart in London. Assume that four-month LIBOR is currently at 0.575 percent. Over the second four-month interval, LIBOR is expected to fall to 0.45 percent. How much will Sharon Ford Com. pay in interest to Stanchart over the eight-month period for the loan? **3 marks**

Question 3

- a). There had been a phenomenal increase in the activities of MNCs over the past few decades. Examine **four** factors which in your opinion have contributed to the rise of the MNC. **8 marks**
- b). MNCs can more easily obtain debt by issuing bonds. Discuss **two** types of international bonds available to MNCs. **3 marks**
- c). Doris Boatemaa is a speculator who buys a Euro call option with a strike price of \$1.62 and an August settlement date. The current spot price as of that date is about \$1.55. Doris Boatemaa pays a premium of \$.012 per unit for the call option. Assume there are no brokerage fees. The spot rate of the Euro reaches \$1.64 just before the expiry date. At this time, Doris Boatemaa exercises the call option and then immediately sells the Euro at the spot rate to a bank. Assume one option contract specifies 50,250 units. Determine whether Doris Boatemaa made a profit or loss on the option. **4 marks**

Question 4

Birm Co., based in London, considered several international opportunities in South America, Asia and Africa and set up five subsidiaries in Chile, Brazil, Singapore, Philippine and South Africa. In January, 2018, its expected cash flows from its local business amounted to £950,500. The expected cash flows from its five subsidiaries were 6.5m Chilean Peso, 5m Brazilian Real, 4.8m Singapore Dollar, 8.2m Philippine Peso and 7.5m South African Rand.

The pound (£) equivalent of the various currencies are:

Chilean Peso – £0.0012

Brazilian Real – £0.2203

Singapore Dollar – £0.5439

Philippine Peso – £0.0138

South African Rand – £0.0615

The cost of capital for Birm Co.’s operations is 14%. During the second half of 2018 its expected cash flows from its local businesses, amounted to £1,225,000. The expected cash flows from its five subsidiaries were 8m Chilean Peso, 4.5m Brazilian Real, 5.2m Singapore Dollar, 8.5m Philippine Peso and 10m South African Rand. The cost of capital for its operations for the second half of 2018 remained unchanged.

Required:

- a). Determine the value of the company. **9 marks**
- b). The second half of 2018 saw the cash flows of most of the subsidiaries of Birm Co. increasing. However, future cash flows of Birm Co. are subject to uncertainty. Examine **three** factors that account for this uncertainty. **6 marks**

Question 5

a). Superior Cement, a multinational corporation obtains the clinker used in making cement from South Africa and produces the cement in one of its subsidiaries located in Ghana. Superior Cement is expected to realize net proceeds of GHC200 million from its subsidiary in Ghana at the end of 30 days and spend an equivalent amount of funds denominated in South African rands (ZAR) to pay for the clinker. Superior Cement wants to eliminate the risk that the ZAR will appreciate relative to the GHC during this 30-day period. A bank has presented the following exhibit showing the current exchange rates between the ZAR, GHC and the US dollar (\$).

Current exchange rates between the GHC, ZAR and the \$.

Currency Exchange Rates				
Maturity	GHC/\$		ZAR/\$	
	Bid	Ask	Bid	Ask
Spot	0.1946	0.1952	0.08569	0.08576
30-day	0.1926	0.1931	0.08445	0.08474
90-day	0.1860	0.1880	0.08121	0.8210

Index Number.....Signature.....Date.....

Required:

- i. Describe the currency transaction that Superior Cement should undertake to eliminate currency risk over the 30-day period. **2 marks**
 - ii. Using the quotations for the 30-day maturity period, calculate the direct quote for the GHC in South Africa. **6 marks**
 - iii. Calculate the percentage spread of the GHC and ZAR **3 marks**
- b). Duve, Inc., desires to penetrate a foreign market with either a licensing agreement with a foreign firm or by acquiring a foreign firm. Explain the differences in potential risk and return between a licensing agreement with a foreign firm and the acquisition of a foreign firm. **4 marks**

Question 6

- a). Real Ford Coppers, a multinational corporation based in Germany, engages in some business activities with Korea and Australia. Germany, in 2016 engaged in a large volume of international trade but minimal capital flow transactions with Korea. In the same year Germany conducted very little international trade with Australia, but frequently engaged in capital flow transactions. How will high inflation and high interest rates in Germany affect the value of the Korean won and the Australian dollar? Explain with diagrams. **9 marks**
- b). Generally firms prefer to finance the temporary component of current assets with short-term funds. Discuss **four** short-term financing options that may be available to a multinational corporation. **6 marks**

The formulas below may be helpful

$$\text{Single Sum Future Value (FV)} = \text{Present value (PV)} \times [1 + r]^n$$

$$\text{Single Sum Present Value (PV)} = \frac{\text{Future Value (FV)}}{[1 + r]^n}$$

$$\text{Future Value (FV) of Ordinary Annuity} = P \times \frac{(1 + r)^n - 1}{r}$$

$$\text{Future Value (FV) of Annuity Due} = P \times \frac{(1 + r)^n - 1}{r} \times (1 + r)$$

Where r = interest rate per compounding period

n = number of compounding periods

P = fixed periodic payment.

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$\text{Working Capital} = \text{Total Current Assets} - \text{Total Current Liabilities}$$

$$\text{Debt/Worth Ratio} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

