



**CHRISTIAN SERVICE UNIVERSITY COLLEGE**  
**KUMASI, GHANA**  
**CSUC SCHOOL OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**MSC ACCOUNTING AND FINANCE**  
**END OF SECOND SEMESTER EXAMINATIONS – 2021/22 ACADEMIC YEAR**  
**(JANUARY ADMISSION)**

**LEVEL 500**

MACF 508: INTERNATIONAL FINANCE

**August, 2022**

**60 MARKS**

**TIME ALLOWED: 3 HOURS**

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**GENERAL INSTRUCTIONS TO CANDIDATES:**

- Answer **four** questions in all. 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). Theories have been propounded to help explain the reasons behind the motivation of firms to expand their business internationally. Critically examine three of such theories. **6marks**
- b). Financial globalization has offered substantial benefits and risks to the national economies and to both investors and wealth creators. Discuss **four** factors that have played an important role in financial globalization. **6marks**
- c). Smart Forson is a speculator who buys a Euro call option with a strike price of \$1.84 and an August settlement date. The current spot price as of that date is about \$1.75. Smart Forson pays a premium of \$.012 per unit for the call option. Assume there are no brokerage fees. The spot rate of the Euro reaches \$1.86 just before the expiry date. At this time, Smart Forson exercises the call option and then immediately sells the Euro at the spot rate to a bank. Assume one option contract specifies 70,500 units. Determine whether Smart Forson made a profit or loss on the option.

**3marks**

**(Total = 15 marks)**

**Question 2**

- a). Agency problem is common with multinational corporations (MNCs). Critically examine four factors which can cause the agency problems in corporate organization. **6 marks**
- b). The management style adopted by the MNC can have an influence on the agency costs of an MNC. Explain the two management styles adopted by MNCs. Which management style in your opinion can be more effective at reducing agency cost, thereby helping to control the agency problem? Discuss. **6 marks**
- c). Diva, Inc., desires to penetrate a foreign market with either a licensing agreement with foreign firm or by acquiring a foreign firm. Explain the difference in potential risk and return between a licensing agreement with a foreign firm and the acquisition of a foreign firm. **3 marks**

**(Total = 15 marks)**

**Question 3**

Hardison Co., a U.S. multinational corporation has six subsidiaries in Asia and Eastern Europe. The expected cash flows from its local businesses in January, 2020 amounted to \$2.2 million. The expected cash flows from its six subsidiaries were, 7 million Philippine Peso, 6.8 million Taiwan Dollar, 8 million Thai Baht, 5 million Turkish Lira, 6.5 million Polish Zloty, and 4.5 million Russian Ruble. The dollar equivalent of the various currencies are as follows:

- Philippine Peso - \$0.01926
- Taiwan Dollar - \$0.03415
- Thai Baht - \$0.03175
- Turkish Lira - \$0.26442
- Polish Zloty - \$0.29495
- Russian Ruble - \$0.01769

The cost of capital for Hardison Co.'s operations is 12%. During the second half of 2020 its expected cash flows from its local businesses, amounted to \$3 million. The expected cash flows from its six subsidiaries were, 7.5 million Philippine Peso, 5.5 million Taiwan Dollar, 9 million Thai Baht, 6.2 million Turkish Lira, 8 million Polish Zloty, and 6 million Russian Ruble. The cost of capital for its operations for the second half of 2020 increased to 12.25%.

**Required:**

- a). Determine the value of the company. **9 marks**
- b). Explain three factors that might have contributed to the increase or otherwise in the cash flows of the subsidiaries. **6 marks**

**(Total = 15 marks)**

**Question 4**

- a). Assume the following information:

Spot rate of Canadian dollar (C\$)	= \$.80
90-day forward rate of Canadian dollar (C\$)	= \$.79
90-day U.S interest rate	= 2.5%
90-day Canadian interest rate	= 4%

An investor wants to take advantage of relatively high interest rate in Canada and have funds available for investment for 90 days.

**Required:**

- i). Assume the investor invests \$1 million, what will be the covered interest arbitrage for the investor? **7 marks**
- b). MNCs can benefit from long-term funds by issuing bonds. Explain two types of international bonds available to the MNC. **4 marks**
- c). Blankson Cole can borrow \$550,500,000 at LIBOR plus a lending margin of 1.25 percent per annum on a three-month rollover basis from Barclays in London. Suppose that three-month LIBOR is currently 0.675 percent. Further suppose that over the second three-month interval LIBOR increases to 0.75 percent. How much will Blankson Cole pay in interest to Barclays Bank over the six-month period for the Eurodollar loan? **4 marks**

**(Total = 15 marks)**



**Question 5**

a). Boyan Co., with its headquarters in the US has two subsidiaries in Ghana and Israel. Boyan Co. is interested in estimating the value of the Ghana cedi (GHC) in terms of the Israeli New Shekel (INS), in order to facilitate the movement of goods from the parent company to the subsidiaries and between the subsidiaries themselves.

A bank has presented the following exhibit showing the current exchange rates between the GHC, INS and the US dollar (\$).

Currency Exchange Rates				
	GHC/\$		INS/\$	
Maturity	Bid	Ask	Bid	Ask
Spot	0.1946	0.1952	0.2862	0.2868
30-day	0.1926	0.1931	0.2870	0.2876
90-day	0.1860	0.1880	0.2891	0.2990

**Required:**

- i. Using the quotations for the 30-day maturity period, calculate the direct quote for the GHC in Israel. **6 marks**
- ii. Calculate the percentage spread of the GHC and INS. **3 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 market. **6marks**

**(Total = 15 marks)**

**Question 6**

a). Financing the working capital requirements of a multinational corporation's foreign affiliates poses a complex decision problem. This complexity stems from the large number of financing options available to the subsidiary of an MNC. Discuss **four** short-term financing options available to the subsidiary of a multinational corporation. **6 marks**

b). Becker Inc. is considering going for a loan of \$15 million for a one-year period. The firm has three options available to it: borrowing Singapore dollars at an interest rate of 5.5%, (2) borrowing Korean Won at an interest rate of 4%, or (3) borrowing Norwegian Krone at an interest rate of 3%. Becker Inc. expects that the Singapore dollar will appreciate by 2% over the next year. The Korean Won will also appreciate by 1.5% while the Norwegian Krone will depreciate by 1%.

**Required:**

- i. Calculate the expected “effective” financing rate for each of the three options. **5 marks**

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

ii. Based on the results in (i) indicate the option that may be most appropriate. **1 mark**

c). Explain two factors that can influence exchange rates. **3 marks**

**(Total = 15 marks)**