



Riara School of Business
Nurturing business innovators

SEPTEMBER-DECEMBER 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION
DAY PROGRAMME
RFN 404: GLOBAL FINANCE

DATE: 5TH DECEMBER 2023

TIME: 2

HOURS

GENERAL INSTRUCTIONS:

- i. Students are **NOT** permitted to write on the examination paper during reading time.
- ii. This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book.
11. Fasten the supplementary pages to the inside back cover of this booklet..

QUESTION ONE (COMPULSORY – (30 MARKS))

a) ABC Inc., is considering the development of a subsidiary in Kenya that would manufacture and sell tennis rackets locally. ABC Inc.’s management has asked various departments to supply relevant information for a capital budgeting analysis. In addition, some ABC Inc. executives have met with government officials in Kenya to discuss the proposed subsidiary. The project would end in 4 years. All relevant information follows.

1. Initial investment. An estimated 80 million Kenyan Shillings (Ksh), which includes funds to support working capital, would be needed for the project. Given the existing spot rate of Ksh. 145 per U.S dollar, the U.S. dollar amount of the parent’s initial investment is \$551,724.14
2. Price and demand. The estimated price and demand schedules during each of the next years are shown here:

	YEAR 1	YEAR 2	YEAR 3	YEAR 4
Price per unit	Kshs.700	Kshs.700	KShs.800	KShs.800
Demand in Kenya	70,000 units	60,000 units	80,000 units	90, 000 units

3. Costs. The variable costs (for materials, labor, etc.) per unit have been estimated and consolidated as shown here:

	Year 1	Year 2	Year 3	Year 4
Variable cost per racket	Kshs.250	Kshs.260	Ksh.280	Ksh.280

The expense of leasing extra office space is Kshs 1 million per year. Other annual overhead expenses are expected to be Kshs.1 million per year.

4. Depreciation. The Kenyan government will allow ABC’s subsidiary to depreciate the cost of the plant and equipment at a maximum rate of Kshs.1.05 million per year, which is the rate the subsidiary will use.
5. Taxes. The Kenyan government will impose a 30% percent tax rate on income. In addition, it will impose a 5 percent withholding tax on any funds remitted by the subsidiary to the parent. The U.S. government will allow a tax credit on taxes paid in Kenya; therefore, earnings remitted to the U.S. parent will not be taxed by the U.S. government.
6. Remitted funds. The ABC subsidiary plans to send all net cash flows received back to the parent firm at the end of each year. The Kenyan government promises no restrictions on the cash flows to be sent back to the parent firm but does impose withholding tax on any funds sent to the parent, as mentioned earlier.
7. Salvage value. The Kenyan government will pay the parent Kshs.52.5 million to assume ownership of the subsidiary at the end of 4 years. Assume that there is no capital gains tax on the sale of the subsidiary.
8. Exchange rates. The spot exchange rate of the Kenyan Shillings Shs.145. ABC uses the spot rate as its best forecast of the exchange rate that will exist in future periods. Thus, the forecasted exchange rate for all future periods is Kshs. 145.
9. Required rate of return. ABC, Inc., requires a 16 percent return on this project.

Required:

- i. Using Net present Value (NPV) method perform Capital budgeting analysis. Advice ABC on the viability of the project **(12 marks)**
 - ii. Using payback period method perform capital budgeting analysis **(8 marks)**
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- b) Explain the term foreign exchange exposure. **(1 mark)**
 - c) Evaluate **THREE** types of foreign exchange exposure **(9 marks)**

QUESTION TWO

- a) Explain the **two** approaches considered in deciding where to invest by the Multinational enterprises (MNEs) **(6 marks).**
- b) Explain the term OLI paradigm **(5 marks)**
- c) Evaluate **three** importance of balance of payments **(9 marks)**

QUESTION THREE

- a) Describe **three** factors that affect international portfolio investment **(9 marks)**
- b) Explain term capital market segmentation **(3 marks)**
- c) Explain **four** main causes of capital markets segmentation **(8 marks)**

QUESTION FOUR

- a) Explain **five** reasons for forecasting foreign exchange rates by Multinational Enterprises **(10 marks)**
- b) Explain **four** factors that affect the Bid/Ask Spread in foreign exchange market **(10 marks)**