



# MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR FIRST SEMESTER EXAMINATION FOR

MASTER IN BUSINESS ADMINISTRATION (FINANCE OPTION)

BAC 820: INTERNATIONAL FINANCE

DATE: 19/8/2021

TIME: 9:00 – 12:00 NOON

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## INSTRUCTIONS:

Answer question ONE and any other THREE questions

### QUESTION ONE (40 MARKS)

- a) Skoda ltd is a leading producer of personal protective equipment (PPE) in Kenya. The company has specialized with production of coveralls, goggles, aprons, breath equipment and surgical and cloth masks. Due to increased demand for PPE occasioned by COVID-19 Pandemic, the company invested in ultra-modern technology that has enhanced production of the PPEs thus surpassing the local demand. The management are considering to expand their business beyond the local market. The management team have approached you as international finance consultant.

**Required:**

- i. Argue a compelling case to justify why the firm should venture in cross border trade. (10 marks)
  - ii. Evaluate four suitable approaches the company could adopt to expand internationally. (8 marks)
- b) Evaluate the relevance of central bank sterilized and non-sterilized intervention on foreign exchange rates. (10 marks)
- c) In past decades there has been increased adoption of floating exchange system across the world, and hence increased speculative activities.

**Required:**

- i. Assess the benefits and drawbacks of floating exchange system. (6 marks)
- ii. Discuss the implication of floating exchange system to balance of payment in your country. (6 marks)

### **QUESTION TWO (20 MARKS)**

- a) Describe the Mundell-Fleming Model and evaluate its implications to foreign exchange rate. (10 marks)
- b) With the aid of examples, discuss the relevance of the following international finance theories to increased economic integration in the world:
- i. The theory of comparative advantage. (4 marks)
  - ii. The product life cycle theory. (3 marks)
  - iii. The imperfect market theory. (3 marks)

### **QUESTION THREE (20 MARKS)**

- a) Assess the impact of direct foreign investment on economic development in Kenya. (10 marks)
- b) The International Monetary Fund (IMF) is increasingly under attack for its inappropriate role in exacerbating the economic crisis in Africa.

#### **Required**

Argue the case for and against the IMF policies in Africa. (10 marks)

### **QUESTION FOUR (20 MARKS)**

- a) Differentiate between purchasing power parity and interest parity theory and discuss their implication to international participants. (12 marks)
- b) Evaluate the drawbacks of absolute purchasing power parity theory. (8 marks)

### **QUESTION FIVE (20 MARKS)**

Briefly describe and assess the relevance of the following models to policy makers:

- a) The flexible -price monetary Model. (7 marks)
- b) The Kareken- Wallace Model. (7 marks)
- c) The Durn-Busch Model. (6 marks)