

Questions international finance

[Economics](#), [Macroeconomics](#)



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This paper consists of SIX Questions and you are required to answer ANY FOUR (4)

Question 1

1. Explain the term “ foreign exchange exposure” in relation to the operations of a multinational enterprise. [5 marks]
2. How are such exposures usually handled by management? [9 marks]

Seattle Inc is a medical device manufacturer. The company’s annual sales of \$ 40m have been growing rapidly, and working capital financing is a common source of concern. The ChiefFinanceOfficer, Martin Bell has recently been approached by one of the company’s major Japanese customers, Yosaka, with a new payment proposal. Yosaka typically orders ? 12. million in product every other month and pays in Japanese yen. The current payment terms extended by Seattle Inc are 30 days, with no discounts given for early or cash payment. Yosaka has suggested that it would be willing to pay in cash (in Japanese yen) if it were given a 3. 0 % discount on the purchase

price. On the basis of the information below: Spot rate 30-day forward rate 90-day forward rate 180-day forward rate ? 96. 60/\$ Yosaka's Weighted average cost of capital ? 99. 08/\$ Seattle Inc Weighted average cost of capital ? 100. 42/\$? 103. 56/\$ 9. 00% 11. 95% Advise Martin Bell on Yosaka's proposition, assuming that Seattle Inc hedges all its foreign currency transactions. (c) [8 marks]

Calculate the rate of forward premium of the US \$ on the 180-day forward rate. [3 marks] [Total marks : 25]

Question 2

“ When the financial systems fail, everyone suffers” - Edward Carr, The Economist.

Explain the importance of regulations in a financial system. [15 marks]

In the wake of the financial crisis that has shaken America and Europe, do you think regulators have failed in their role? [10 marks] [Total marks : 25]

Question 3

Briefly outline the disadvantages of a fixed exchange rate regime? [6 marks]

Explain the following terms:

1. Special Drawing Right (SDR)
2. Currency board arrangement
3. Euro currency
4. Dollarisation [12 marks]

(c) The Thai baht was devalued by the Thai government from Bt 25/\$ to Bt 29/\$ in July 1997. Calculate the devaluation of the baht against the US dollar [3 marks]

(d) Explain the difference between devaluation and depreciation of a currency. [4 marks] [Total marks : 25]

Question 4

Do you think free international capital mobility is desirable for emerging economies? [15 marks]

Explain how an active secondary market for securities can be beneficial to:

- lenders
- borrowers [10 marks] [Total marks : 25]

Question 5

Outline the main summary statements of the balance of payments accounts and explain briefly their economic significance. [10 marks]

How can flows of ‘laundered’ money from drug trade or international terrorist activities find their way into the Balance of Payments? [5 marks]

How can such illegal flows be avoided if a country wants to be perceived as a “clean” financial centre? [10 marks] [Total marks: 25]

Question 6

As a firm evolves, domestic operations are no longer adequate to sustain further development, and the firm seeks other avenues of growth. Outline the considerations that need to be taken if the firm is contemplating a strategic alliance with a foreign partner. [15 marks]

Explain the difference between “ internal” financing and “ external” financing” for a foreign subsidiary and give two examples of internal financing. [10 marks] [Total marks : 25]