

UNIVERSITY OF ESWATINI
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION PAPER DECEMBER 2018

PROGRAMME : MASTER OF BUSINESS ADMINISTRATION

TITLE OF PAPER : INTERNATIONAL FINANCE

COURSE CODE : ACF633

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 This paper consists of **SIX (6) numbered pages**, including this page.
 - 2 Answer **ALL QUESTIONS** in **SECTION A** and **ANY TWO (2)** questions in **SECTION B**.
 - 3 Begin solution to each question on a new page.
 - 4 Show all the necessary workings.
 - 5 Round off as you deem appropriate.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

THIS PAPER MUST NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

SPECIAL REQUIREMENT: FINANCIAL CALCULATOR

SECTION A: CALCULATION QUESTIONS TOTAL MARKS: 50**ANSWER ALL QUESTIONS IN THIS SECTION****QUESTION 1 (25 marks: 18 minutes)**

Malbereign Cotton Processors Plc (MCPP) is an UK-based public company, and exports its products throughout the world. It has today received from a regular customer in France an order worth £350 000 at today's spot market exchange rate. It has also received from a new customer in Swaziland an order worth £150 000 at today's spot rate. Both orders are to be paid in the respective importer's currency. The Swazi customer will pay in 60 days while the French customer will pay in 90 days.

Foreign exchange rates (mid rates):

	<u>FF/US\$</u>	<u>US\$/£</u>	<u>Swazi Emalangeni/£</u>
Spot	5.7485	1.4920	1 700
1 month forward	5.7622	1.4898	N/A
2 months forward	5.7727	1.4886	
3 months forward	5.7833	1.4873	

Money market rates (% per annum):

	<u>Deposit</u>	<u>Borrowing</u>
UK bank	5	8
Swazi bank	15	N/A
US domestic bank	3	6
Cost of the option	1.175% of the transaction amount	
Strike price of an option	\$1.50 / £	

These rates are fixed for a period of two or three months for immediate deposits or borrowings.

MCPP converts all foreign currency receipts into sterling immediately on receipt. Wherever possible, the company uses forward exchange contracts to hedge its currency risks. In view of the lack of forward markets in Swaziland, the Swazi-customer has offered to pay \$US225 000 to MCPP in three months' time, instead of Swazi Emalangeni in 60 days. The customer is able to do this as a result of his government's new economic liberalisation policies.

REQUIRED:

- (i) Calculate the sterling (£) receipts that MCPP can expect from its sales to the French customer assuming MCPP hedges its risk using the forward market. **(6 marks)**
- (ii) Assume that MCPP hedges its risk using the forward market, calculate the expected sterling receipts from the Swazi customer, assuming its offer of payment in US\$ is accepted. **(3 marks)**

- (iii) Advise MCPP on how to hedge its risk using money market hedge and calculate the expected sterling receipts from the French customer.
(4 marks)
- (iv) Assume MCPP hedges its risk using options contract, calculate the expected sterling receipts from the Swazi customer, assuming its offer of payment in US\$ is accepted.
(5 marks)
- (v) Assuming that in the spot market the Swazi Emalangeni/US\$ is 1130; calculate how much arbitrage profit one could achieve. Assume you start with **ONE (1) million** of any of the currencies in the arbitrage process.
(7 marks)

Question 2**25 marks**

Pan- African Holdings Ltd (PAHL), a multinational company based in Botswana Africa, has a foreign direct investment (FDI) opportunity in Swaziland. The state-of-the-art machine required for this investment will be assembled using parts sourced from Botswana, Japan and Swaziland.

The procurement department has come up with the following prices of the parts to be assembled:

Botswana parts (Pulas)	P1.8 million
Japanese parts (Japanese Yen – ¥)	¥1.2 million
Swaziland parts (SZL)	E3 million

The machine will be depreciated down to zero over five years using the straight-line method and will have no salvage value.

The marketing department predicts that sales related to the project will be E2.25 million per year for the next five years.

The required rate of return on this investment in Swaziland is 12.85%. The inflation rates in Botswana and Swaziland are 4 percent and 6 percent respectively.

The current spot exchange rates are given below:

Emalangeni / ¥	0.7500
Emalangeni / Pula	1.5000

REQUIRED:

(a) Calculate the total cost of the state-of-the-art machine in Pulas and Emalangeni.

(4 marks)

(b) Evaluate the project using the home currency approach.

(21 marks)

SECTION B: ESSAY QUESTIONS TOTAL MARKS: 50

ANSWER ANY TWO (2) OF THE FOLLOWING FOUR (4) QUESTIONS

Question 1 - 25 Marks

Why is the Rand so volatile at the moment?

It's easy to feel panicked about how volatile our currency (the SA Rand) is at the moment. And it's even easier to blame it on our politicians. While recent political events have definitely had an impact on the Rand, there are many other factors at play that help to give context.

<https://www.bidvestbank.co.za/news-room/news-view.aspx?i=88>

1. Provide a detailed theoretical analysis of the arguments for and against this policy and review the empirical evidence regarding currency devaluation as an economic stimulus.
2. With reference to the above article, discuss the economic reasons behind the recent volatility of the South African Rand (ZAR).

USE THE READING BELOW TO ANSWER ANY OF THE FOLLOWING
QUESTIONS; 2; 3 and 4

BHP Billiton's London listing: till death do us part

by Matthew Stevens

The BHP Billiton board and management are once again under pressure from Australian owners to justify the company's enduring commitment to the complicated dual listing structure created in 2001 to contain the cost of the merger that fathered the Global Australian. The value of BHP's London listing, and the legally distinct British corporate entity that supports it, has been the subject of quietly robust conversations between management and a cohort of senior owners pretty much from the moment South32 walked to still-shaky freedom in May. That anxiety has been further amplified by the necessity revealed in amendments that BHP is trying to make to the dual listed company agreement. The effect of the changes, which await confirmation in a vote at next month's BHP Ltd annual meeting, is that capital can more efficiently cross hemispheres between the Australian and British arms of BHP.
<http://www.afr.com/opinion/columnists/bhp-billitons-london-listing-till-death-do-us-part-20151028-gkkxzd>

Question 2 - 25 Marks

The extract above refers to conflict surrounding BHP Billiton's use of a dual-listing between the Australian and British stock markets. With reference to the extract use theory and empirical evidence to critically unpack the issues surrounding this debate explaining the possible reasons why BHP Billiton's managers might favour a dual listing and the arguments against it. Offer your own assessment based on the above review as to whether BHP Billiton should continue its dual-listing

Question 3 - 25 Marks

The extract states that a motivation for BHP Billiton's policy is that capital can be moved globally more efficiently. With reference to empirical evidence discuss the factors a multinational should consider when determining its optimal capital structure and explain why might the capital structure of a subsidiary differ substantially from the MNC's "global" capital structure or from an equivalent subsidiary in a different country.

Question 4 - 25 Marks

Discuss the potential advantages and disadvantages that multinational corporations (MNCs) enjoy in managing their Net Working Capital and the various arbitrage opportunities available to them in their working capital management.