UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
MASTER OF BUSINESS ADMINISTRATION
MAIN EXAMINATION PAPER NOVEMBER 2019/2020 SESSION

PROGRAMME	:	**MBA ACCOUNTING AND FINANCE**
TITLE OF PAPER	:	**INTERNATIONAL FINANCE**
COURSE CODE	:	**ACF 633**
TOTAL MARKS	:	**100 MARKS**
EXAM PERIOD	:	**NOVEMBER, 2019**
TIME ALLOWED	:	**THREE (3) HOURS**

INSTRUCTIONS:

1. There are five (5) questions, answer question one (1) and any other three (3) questions.
2. Begin the answer to each question on a new page.
3. Show all necessary calculations.
4. The marks awarded for a question are indicated at the end of each question.
5. All questions carry equal marks.

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

Question 1 (25 marks)

OK Foods Ltd plans to determine how changes in South African inflation rates, interest rates, income levels, government controls, and expectation of future exchange rates will affect the value of spot Rand/US dollar exchange rate. The results of the regression model estimated to achieve this purpose are displayed in Table 1 below.

Table 1. Results of regression exchange rate determinants on Rand/USD spot rate

Variable	coefficient	*t*-statistic	*p*-value
Constant	0.390	1.322	0.196
ΔInflation rate	-0.772	-8.224	0.000
ΔInterest rate	0.380	3.120	0.009
ΔIncome level	0.290	2.843	0.006
ΔGovernment controls	0.190	1.918	0.068
ΔExpectation of future ExR. rates	0.183	1.950	0.061
Dependent variable = Rand/USD spot rate, $R^2 = 0.929$, $F(5,27) = 824.457$ [0.000], DW= 2.026			

(i) Using *t*-statistic or *p*-value as a measure of significance at the 95% confidence level, identify variables that significantly influence Rand/USD spot rate. **(12 marks)**

(ii) Explain how an increase in the significant variables will affect Rand/USD spot rate. **(13 marks)**

Question 2 (25 marks)

Brower, Inc., A USA firm, intends to construct a manufacturing plant in South Africa. The construction will cost 9 million South African Rand. Brower intends to leave the plant open for 3 years. During the 3 years of operation, Rand cash inflows are expected to be 3 million Rand, 3 million Rand, and 2 million Rand, respectively. Operating cash flows will begin 1 year from today and are remitted back to the parent at the end of the third year. At the end of the third year, Brower expects to sell the plant for 5 million Rand. Brower has a required rate of return of 17 percent. It currently takes 15 Rand to buy 1 U.S. dollar, and the Rand is expected to change to 16 Rand to a dollar in year two and 17 Rand to a dollar in year three.

(i) Determine the NPV for this project. Should Brower build the plant? **(16 marks)**

(ii) The challenge of international capital budgeting is to accurately predict the financial variables that are used to estimate cash flows. Briefly discuss any six of those financial variables. **(9 marks)**

Question 3 (25 marks)

(i) Discuss the major reasons for entering into a forward contract, and highlight the differences between a forward and futures contracts. **(16 marks)**

(ii) Assume that the forward exchange rates of the British pound for various maturities are as shown in the second column of Table 2. Compute the forward discount or premiums on an annualized basis. **(9 marks)**

Table 2. Spot and Forward Rates for USD/Pound Exchange Rates

Type of Exchange Rate for £	Value	Maturity
Spot rate	$1.672	
30-day forward rate	$1.677	30 days
90-day forward rate	$1.680	90 days
180-day forward rate	$1.681	180 days

Question 4 (25 marks)

(i) Blues, Inc., is an MNC located in the Swaziland. Blues would like to estimate its cost of capital (WACC). The capital structure of Blues is composed of E.200 millon of debt at 17%, E.150 million of preference shares at 14%, and 100 million ordinary shares with a current market price of E.120 per share. The current rate of return on ordinary share is 12%, and the firm's tax rate is 30%. What is Blues' cost of capital? **(15 marks)**

(ii) Discuss the characteristics unique to each host country that can influence the MNC's choice of debt versus equity financing and thereby influence the MNC's capital structure. **(10 marks)**

Question 5 (25 marks)

(i) What is the postulate of Interest Rate Parity Theory? Discuss the difference between covered and uncovered Interest Rate Parity. **(10 marks)**

(ii) Assume that Mr Brown has $10,000,000 with two options (a) invest in US for 90days at 6% interest per annum (b) invest in Japan at 3% interest rate per annum. The Y/$ spot exchange rate is S = ¥106.00/$ and the 6 months forward rate is Y103.50/$. Evaluate his arbitrage profit or loss. **(15 marks)**

END OF PAPER