UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
MASTER OF BUSINESS ADMINISTRATION
EXAMINATION PAPER 2020/2021 SESSION

PROGRAMME	**:**	**MBA ACCOUNTING AND FINANCE**
TITLE OF PAPER	**:**	**INTERNATIONAL FINANCE**
COURSE CODE	**:**	**ACF 633**
TOTAL MARKS	**:**	**100 MARKS**
EXAM PERIOD	**:**	**FEBRUARY, 2021**
TIME ALLOWED	**:**	**THREE (3) HOURS**

INSTRUCTIONS:

1. There FOUR (4) questions, ANSWER ALL.
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)

Apples Inc., a US company, is considering the establishment of a subsidiary in Eswatini that would manufacture iPhones locally. Apples' finance analysts have asked the manufacturing, marketing, and financial departments to provide them with relevant input so they can apply a capital budgeting analysis to this project. In addition, some Apples executives have met with the Prime Minister of Eswatini to discuss the proposed subsidiary. The project would end in three years. The information pertaining to the project is as follows.

The project would require an initial investment of *E*30,000,000, which includes funds to support working capital. The existing spot rate is \$0.068 per Lilangeni.

The estimated price per iPhones in the next 3years are *E*6100, *E*6250, and *E*6400; and the demand schedules during each of the next 3 years are 2500 units, 2600 units, and 2750 respectively.

The variable costs (for materials, labour, etc.) per unit have been estimated and consolidated for the next 3years as *E*2900, *E*2700, and *E*3100 respectively. The expense of leasing extra office space is *E*1,100,000 per year. Other annual overhead expenses are expected to be *E*1,200,000 per year.

The Eswatini government will impose a 22 percent corporate tax rate on income. In addition, it will impose an 8 percent withholding tax on any funds remitted by the subsidiary to the Apples Inc.

The U.S. government will allow a tax credit on taxes paid in Eswatini; therefore, earnings remitted to the U.S. parent will not be taxed by the U.S. government.

The Apples subsidiary in Eswatini plans to send all net cash flows received back to the parent firm at the end of each year.

The 3years projected forward exchange rates of the US dollar per lilangeni are \$.068, \$0.072, and \$0.076, respectively. .

The Eswatini government will pay Apples Inc USA *E*8,000,000 million to assume ownership of the subsidiary at the end of 3 years. Assume that there is no capital gains tax on the sale of the subsidiary.

Apples Inc., requires a 12.5 percent return on this project.

You are required to:

(i) Determine the dollar cash flows to be remitted to the Apples Inc. in each year. **(12 marks)**

(ii) Calculate the net present value (NPV) using the calculated dollar cash flows. **(10 marks)**

(iii) Using the NPV decision rule, advice Apples Inc. on whether to establish the iPhones manufacturing company in Eswatini or no not. **(3 marks)**

Question 2: (Marks allocated: 25)

(i)Discuss any 3 corporate and 3 host country characteristics that can influence the financing mix of a multinational corporation. **(9 marks)**

(ii) Kwaluseni Financing Pty. is an international venture capitalist located in Eswatini. The MNC would like to establish its cost of capital. The financing mix of Kwaluseni Financing Pty comprises of E900 million of debt at 12%, E750 million of preference shares at 11%, and 200 million ordinary shares with a current market price of E12 per share. The current rate of return on ordinary share is 16% and the firm's tax rate is 36%. What is Kwaluseni Financing Pty's cost of capital?

Question 3 (25 marks)

Ezike Pty investigates how changes in Eswatini inflation rates, interest rates, income levels, government controls, and expectation of future exchange rates will affect the spot Lilangeni/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			

You are required to:

(i) Use *p*-value to identify variables that affect Lilangeni/USD spot rate at the 5% level significance. **(12 marks)**

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

Question 4 (25 marks)

Manzini Investment Company Pty have E20,000,000 available for 180 days with two investment options: **(a)** invest in Eswatini financial market for 180days at 10% interest per annum, or **(b)** invest in USA Treasury Bills for 180days at 6% interest rate per annum. The E/$ spot exchange rate is E15.800/$.

You are required to:

(i) Calculate the 180day lilangeni/dollar (E/$) forward exchange rate and highlight the implication of high interest rate on the forward rate. **(8 marks)**

(ii) Use the forward exchange rate computed from question 2(i) above to evaluate Manzini Investment Company Pty's arbitrage profit or loss from the two investments. **(13 marks)**

(iii) Discuss the difference between covered and uncovered Interest Rate Parity. **(4 marks)**

END OF PAPER