



**UNIVERSITY OF RUHUNA**  
**FACULTY OF MANAGEMENT AND FINANCE**

No. of Pages : 04  
No. of Questions: 05  
Total Marks : 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

*Three Hours*

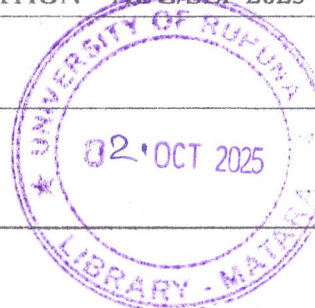
4000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2025

**FIN 41313: International Finance**

**Academic Year 2024/2025**

**Instructions:**

- Answer all questions.
- Non-programmable calculators are allowed.



**Question 01**

- (A) State four (04) different methods that firms can use to enter and engage in international markets. (02 marks)
- (B) GlobalTech Inc. expects cash flows of 150,000 dollars from its local operations and 2 million Japanese Yen from its business in Japan at the end of period  $t$ . Assume that the Yen's value is expected to be \$0.0075 when converted into U.S. dollars, what will be the expected dollar cash flows? (03 marks)
- (C) Explain how government policies influence international trade flows. Provide relevant examples to support your answer. (04 marks)
- (D) Assume that the U.S. dollar is currently weak and is expected to strengthen over time. How would these expectations affect the tendency of U.S. investors to invest in foreign securities? Use a relevant example to illustrate your answer. (05 marks)

**(Total Marks 14)**

**Question 02**

- (A) Briefly explain the difference between direct quotation and indirect quotation. Use relevant examples to illustrate your answer. (02 marks)
- (B) A speculator in New York plans to take a \$15,000 position in Euros (€). Determine his position after the trade using both American terms and European terms.

USD Bank Quotations	American Terms		European Terms	
	Bid	Ask	Bid	Ask
Euros	1.6500	1.6503	0.6056	0.6061

**(03 marks)**

- (C) A Japanese investor has just completed transactions in Canada and Australia. He is now holding ¥100,000 and \$550,000 (USD), and wants to convert both amounts into Euros (EUR). His currency dealer provides the following quotations:

JPY/USD 134.50 – 55

EUR/ USD 0.7400 – 05

Determine his total proceeds after converting both amounts into Euros.

(04 marks)

- (D) The following table illustrates the bid and ask exchange rates (hypothetical values) quoted by banks for selected currencies in both American and European terms.

USD Bank Quotations	American Terms		European Terms	
	Bid	Ask	Bid	Ask
Pounds (£)	1.3300	1.3350	0.7512	0.7591
Swiss Francs (CHF)	1.1025	1.1075	0.9029	0.9070

A multinational firm holds a position of £20,000 and intends to convert this amount into both Swiss Francs (CHF) and United States Dollars (USD) for operational purposes.

- i) What amounts will the firm receive in CHF and USD? (03 marks)
- ii) Compute the cross exchange rate between the £ and CHF

(02 marks)

(Total Marks 14)

### Question 03

- (A) The spot rate of the British pound is \$1.73 (USD). The expected spot rate one year from now is assumed to be \$1.66 (USD). What percentage depreciation does this represent?

(02 marks)

- (B) Assume that the Canadian government imposes new foreign exchange controls restricting the outflow of Canadian dollars for foreign investment, while all other factors remain constant. Explain how this would affect the supply of Canadian dollars for sale and the resulting equilibrium exchange rate.

(03 marks)

- (C) On 10<sup>th</sup> May, speculators buy a futures contract specifying 600,000 Brazilian Reals (BRL) with a settlement date of August at a price of \$0.18 (USD) per Real, expecting the Real to appreciate. On 20<sup>th</sup> August (the settlement date), the spot rate of the Real is \$0.20 (USD). Calculate the gain or loss the speculators realize from this futures position.

(04 marks)

(D) Discuss how government intervention in currency valuation can serve as a policy tool to influence international trade. Explain with relevant examples.

(05 marks)

(Total Marks 14)

#### Question 04

(A) State the difference between sterilized intervention and non-sterilized intervention by the central bank of Sri Lanka in the foreign exchange market.

(02 marks)

(B) A bank quotes the Euro at \$1.20 per Euro, and the Japanese Yen at \$0.009 per Yen. The cross exchange rate quoted by the bank is one Euro equals 135 Yen. If you have \$15,000,

i) Describe how you would execute a triangular arbitrage by converting U.S. dollars into Euros, then Euros into Yen, and finally Yen back into U.S. dollars.

(02 marks)

ii) State whether a profit can be made through triangular arbitrage based on your calculations.

(01 mark)

(C) On 10<sup>th</sup> March, an investor buys a forward contract for 100,000 British pounds (GBP) with a settlement date of 30<sup>th</sup> May at a price of \$1.28 (USD) per pound, anticipating the pound will appreciate. On 30<sup>th</sup> May, the spot rate is \$1.31 (USD) per pound. Calculate the gain or loss the investor realizes from this forward position. Show all calculations.

(04 marks)

(D) Explain how multinational corporations (MNCs) use forward contracts to hedge foreign exchange risk in international trade. Explain with relevant examples.

(05 marks)

(Total Marks 14)

#### Question 05

(A) State four (04) key factors that must be considered when conducting multinational capital budgeting.

(02 marks)

(B) The cost of capital for multinational corporations is generally lower than that of domestic firms. Briefly explain this statement with relevant factors.

(02 marks)

(C) TechNova Corporation, a U.S. based company, plans to establish an 80%-owned subsidiary in Malaysia to manufacture and sell smart home devices over a four-year period. The company's financial managers will evaluate the project using capital budgeting techniques.

The following information has been provided for your analysis.

- The project requires an initial capital investment of MYR (Malaysian Ringgit) 30 million.
- The projected sales revenue is MYR 40 million in Years 1 and 2, MYR 52 million in Year 3, and MYR 66 million in Year 4.
- The total variable cost is MYR 24 million for Years 1 and 2, MYR 32 million in Year 3, and MYR 40 million in Year 4.
- The total fixed cost of the company is estimated at MYR 10 million per year throughout the project period, including depreciation calculated on a straight-line basis over four years.
- Other Relevant Information:
  - Corporate tax rate in Malaysia: 30%
  - Withholding tax rate: 10%
  - Current spot exchange rate: \$ 0.20 per MYR
  - Salvage value at end of Year 4: MYR 10 million
  - Required rate of return: 10%

**Required:**

- i) You are required to advise TechNova Corporation on whether to undertake the project based on the Net Present Value (NPV) method.

(06 marks)
- ii) Reconsider the case of TechNova Corporation, where subsidiary earnings are blocked until its sale and reinvested at a 10% after-tax return. How would this affect the parent company's capital budgeting decision?

(04 marks)

(Total Marks 14)

$$E(CF_{s,t}) = \sum_{j=1}^m [E(CF_{j,t}) \times E(S_{j,t})]$$

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