



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) : 

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Student ID (in Words) : \_\_\_\_\_  
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Course Code & Name : **FIN2183 MULTINATIONAL FINANCE**  
Semester & Year : JANUARY - APRIL 2023  
Lecturer/Examiner : DR. ABD HADI MUSTAFFA  
Duration : 3 Hours

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**INSTRUCTIONS TO CANDIDATES**

1. This question paper consists of the following:  
**PART A (100 Marks) : Answer ALL Questions in the Answer Booklet**
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Exam Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials from the examination hall.
4. Only ballpoint pens are allowed to answer the questions, except for multiple choice questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

**Total Number of pages = 5 (Including the cover page)**

**PART A : 100 Marks**

**INSTRUCTION (S) : Answer ALL Questions in the Answer Booklet**

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**QUESTION 1 (20 Marks)**

a) Explain FIVE (5) differences between International and Domestic Financial Management. (15 Marks)

b) List FIVE (5) assumptions on International Theory of Comparative Advantage. (5 Marks)

**[Total: 20 Marks]**

**QUESTION 2 (20 Marks)**

a) The following is the International Monetary Fund (IMF)'s classification of currency regimes. Describe the following terms:

- i. Hard pegs' fixed exchange rate
- ii. Soft pegs' fixed exchange rate
- iii. Managed float exchange rate
- iv. Free floating exchange rate

(8 Marks)

b) Identify the debit and credit for each transaction. Then, classify the following transaction either current account or capital and financial account.

<b>Transactions</b>	<b>Double entry accounting record</b>	<b>Classification of Balance of Payment Account</b>
<b>Example: A U.S. food chain imports wine from Chile</b>	<b>Debit U.S. goods (food) Credit Chilean goods (food)</b>	<b>Current account</b>
1) A U.S. resident purchases a euro-denominated bond from a German company		
2) Singaporean parents pay for their daughter to study at a U.S. university		
3) A U.S. university gives a tuition grant to a foreign student from Singapore.		

4) A British Company imports Spanish oranges, paying with eurodollars on deposit in London.		
5) A London-based insurance company buys U.S. corporate bonds for its investment portfolio.		
6) An American multinational enterprise buys insurance from a London insurance broker.		

(12 Marks)

**[Total: 20 Marks]**

**QUESTION 3 (20 Marks)**

- a) As an investment executive in your company, you noticed that there could be an arbitrage opportunity in foreign currencies after monitoring the foreign exchange market. The exchange rate quoted as follows:

1 USD = 3.2070 / 3.2090 MYR  
 1 HKD = 0.4922 / 0.4968 MYR  
 1 USD = 7.8240 / 7.8260 HKD

Assuming that you have 20,000,000 HKD, show the calculation on how to make profit from an arbitrage situation.

(12 Marks)

- b) Your friend just came back from a holiday in Italy and bought you a bottle of 10 EURO Italian olives. How much does the olive cost in MYR if the exchange rate is 1 EURO = 1.3300 USD, and 1 USD = 3.2250 MYR at the time your friend was in Italy?

(4 Marks)

- c) If the box of olives can be bought at 45 MYR in Malaysia, and 20 USD in the U.S., given the same exchange rate as per information at question (b), is it profitable to buy the olives in Italy compared to Malaysia? Or compared to U.S.?

(4 Marks)

**[Total: 20 Marks]**

**QUESTION 4 (20 Marks)**

Richard is a fund manager for Axiassa Company. He plans to trade in derivatives denominated in British Pound (GBP) and Egyptian Pound (EGP). The following are the current exchange rates between EGP, GBP, and U.S. Dollar (USD).

	<b>Value of 1 USD</b>	<b>Value of 1 USD</b>
Spot	15.7523/65 EGP	0.7536/79 GBP
30-days forward points	35/61	53/33
90-days forward points	52/48	22/40

- a) Calculate the cross-exchange rate for spot between EGP and GBP  
(2 Marks)
- b) Determine the outright rates for 30 days and 90 days forward quotation for both values of 1 USDs.  
(8 Marks)
- c) How much GBP would Richard receive if he has 500,650 USD for one-month delivery?  
(2 Marks)
- d) Compute the bid-ask percentage spread on the spot EGP per GBP quotation  
(4 Marks)
- e) Determine the 90 days annualised premium or discount GBP and EGP for ask rate only  
(4 Marks)

**[Total: 20 Marks]**

**QUESTION 5 (20 Marks)**

a) Assume the following information:

Spot rate	100 IDR = 0.0385 / 0.0455 MYR
180-day forward rate	100 IDR = 0.0450 / 0.0470 MYR
180-day IDR interest rate	8%
180-day MYR interest rate	6%

\*IDR = Indonesia Rupiah, MYR = Malaysia Ringgit

Given the above information, is covered interest arbitrage (CIA) worthwhile for an investor? Explain your answer and show the CIA profit, if the investor can borrow RM 2,000,000 to start with.

(8 Marks)

b) A U.S. firm has future payables worth 700,000 EURO which is due in 6 months. Due to the exchange rate risk exposure it must face, the firm has various hedging strategies to choose from. The following market information is available:

Spot rate	1 EURO = 0.9820 / 0.9852 USD
6-months forward rate	1 EURO = 0.9800 / 0.9834 USD
6-months call option	Exercise price = USD 0.98, Premium = USD 0.03
6-months put option	Exercise price = USD 0.95, Premium = USD 0.03
6-months interest in U.S.	5%
6-months interest in Germany	5.5%

i. If the firm uses option contract, determine the USD hedge value

(3 Marks)

ii. If the firm uses money market hedge, determine the estimated USD hedge value

(5 Marks)

iii. If the firm uses forward contract, determine the USD hedge value

(2 Marks)

iv. Based on the answers above, choose the best hedging strategy. Justify the decision.

(2 Marks)

**[Total: 20 Marks]**

**END OF QUESTION PAPER**