INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - DECEMBER 2025

PROGRAMME: MBA
YEAR/SEM: YEAR 2/SEMESTER 1
COURSE CODE: MBA 812
NAME: INTERNATIONAL FINANCE

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

Section A is Compulsory

Question 1:

Measures of correcting balance of payments deficit

Countries normally aim at a surplus balance. A deficit is a matter of concern. However, the effect of a deficit depends partly on its cause. If it is due to loans or investment overseas, it may mean that the country is increasing its wealth abroad and so strengthening its future current account through the resulting inflow of interest and profits. On the other hand, deficits on current account mean that the nation is spending more than it is earning abroad. This is similar to an individual living beyond his income.

Balance of payments deficits, especially if persistent, stand to be a greater threat to a country, especially a developing country. A country with a balance of payments deficit can either adopt temporary measures which are aimed at arresting the deteriorating situation, or look for long-term solutions, which involve the overhauling of the whole economy.

Considering the above scenario discuss with examples the temporary measures the country with a balance of payments deficit can adopt arrest the situation.

(40 Marks)

Question 2:

A. The financial system plays the key role in the economy by stimulating economic growth, influencing economic performance of the actors, affecting economic welfare. This is achieved by financial infrastructure, in which entities with funds allocate those funds to those who have potentially more productive ways to invest those funds. A financial system makes it possible a more efficient transfer of funds.

As one party of the transaction may possess superior information than the other party, it can lead to the information asymmetry problem and inefficient allocation of financial resources. By overcoming the information asymmetry problem, the financial system facilitates balance between those with funds to invest and those needing funds.

According to the structural approach, the financial system of an economy consists of three main components:
What are the Three components in the Economy and their specific roles

(20 Marks)

B. A financial market is a market where financial instruments are exchanged or traded. Financial markets provide the following three major economic functions:

a, Price discovery

b. Liquidity

c. Reduction of transaction costs

Explain with Examples the roles of three major economic functions

(20 Marks)

SECTION B

ATTEMPT ANY THREE QUESTIONS FROM THIS SECTION

Question 1:

i). What are the causes of balance of payments deficit?

(10 Marks)

ii). Explain the deference between Current account and Capital account (10 Marks)

Question 2:

i)Under the Balance of payments what is Equilibrium?

(10 Marks)

iv) What are the economic effects brought by A balance of payments surplus to a country and her citizens: (10 Marks)

Question 3:

i). Explain with Examples, the Advantages and Disadvantages between Internal and External debt (10Marks)

ii) The Traditional Theory of Capital Structure. This theory or approach of capital structure is mix of net income approach and net operating income approach of capital structure. It has three stages which you should understand: Explain the three stages **(10Marks)**

Question 4:

) What are the financial intermediaries and their functions? (10Marks)

ii). Explain with Examples what you understand of the term international trade. (10Marks)

Question 5:

i). There are many types of participants in the foreign exchange market:

One of the Participants are the Banks. What are Roles of Central Bank

and the Commercial Banks in the International Finance? (10 Marks)

ii). Explain with examples the difference between Spot and Forward Exchange Rates

(10 Marks)

Question 6:

i). There are many types of participants in the foreign exchange market:

One of the Participants are the Banks. What are Roles of Central Bank and the Commercial Banks in the International Finance?
(10 Marks)
ii). Explain with examples the difference between Spot and Forward Exchange Rates

(10 Marks)

Question 7:

Explain with Examples the five major theories of exchange-rate determination: (20Marks)

Question 8:

Explain with Examples how the following three key roles which the Commercial banks play in the international transactions:

A. Operate the payment mechanism

B. Extend credit

C. Help to reduce risk.

(20 Marks)

Question 9:

A. Explain the relation between capital, income, money and wealth. (10Marks)

B. What is the Meaning of Capital Flows? (10 Marks)

Question 10:

Capital Flows is the movement of money for the purpose of investment, trade or business production. Foreign capital involves not only the commercial, financial and economic considerations but also wider concerns such as systemic volatility, national sovereignty, dependency, international hegemony, covert colonial exploitation, and the ultimate resources drain. What are the Major Determinants of Various forms of Foreign Capital Flows (20Marks)

Question 11:

A. What are the disadvantages of the managed floating system? (10 Marks)
B. Explain currency risk management in international operations management. (10 Marks)

Question 12:

A. Discuss the difference between Flexible Exchange rates and Fixed Exchange Rates. (10 Marks)
B. What is the Absolute Advantage of International Trade. (10 Marks)