

THE INSTITUTE OF FINANCE MANAGEMENT



INSTITUTE OF FINANCE MANAGEMENT

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BACC III , BBF III, BEF & BAIT III

2023/2024

ACU 08103, BFU 08104: INTERNATIONAL FINANCE

Coursework Assignment

INSTRUCTIONS:

1. There are **THREE QUESTIONS** in this assignment. Respond adequately to the requirements.
2. The assignment is a **GROUP ASSIGNMENT**. Each group should not have more than 10 members.
3. You are expected to use academic journal articles/papers and text books as references where necessary.

**The deadline for submission of this assignment is 4th January 2024.
The assignment should be submitted both in soft and hardcopy.**

QUESTION ONE [35 MARKS]: ECONOMICS OF THE FOREIGN EXCHANGE MARKET

A *Foreign Exchange Dealer* based in Dar es Salaam, Tanzania, provided the following foreign exchange quotes on 24th December, 2022.

	Buying	Selling
Spot TZS/£	2,500	2,600
1 Year Forward TZS/£	2,650	2,690

	Buying	Selling
Spot £/€	0.25	0.40
1 Year Forward £/€	0.50	0.80

REQUIRED:

1. Calculate the value in TZS to a customer who wishes to sell €5,000 to the dealer spot. **(3.5 marks)**
2. Calculate the value in € to a customer who wishes to sell TZS5,000,000 to the dealer one year forward. **(3.5 marks)**
3. Calculate the value in TZS to the dealer upon selling €5,000 to a customer spot. **(3.5 marks)**
4. Calculate the value in € to the dealer upon selling TZS5,000,000 to a customer one year forward. **(3.5 marks)**
5. Calculate the cost in TZS to a customer who wishes to buy €5,000 from the dealer spot. **(3.5 marks)**
6. Calculate the cost in € to a customer who wishes to buy TZS5,000,000 from the dealer one year forward. **(3.5 marks)**
7. Calculate the cost in TZS to the dealer upon buying €5,000 from a customer spot. **(3.5 marks)**
8. Calculate the value in € to the dealer upon buying TZS5,000,000 from a customer one year forward. **(3.5 marks)**
9. Use mid rates to determine the one year forward premium or discount on the £ relative to the €. **(3.5 marks)**
10. Use mid rates to determine the one year forward premium or discount on the TZS relative to the €. **(3.5 marks)**

QUESTION TWO [35 MARKS]: INTERNATIONAL PORTFOLIO DIVERSIFICATION

You are a Portfolio Manager working with a multinational company with a subsidiary in Dar es Salaam. Your Managing Director has provided you with the following returns in three different stock markets. A decision is to be made whether an equally invested portfolio should be formed constituting shares from the three markets. The shares can be purchased in individual country funds.

State of the World	Probability	South Africa (Return in %)	Tanzania (Return in %)	Kenya (Return in %)
I	0.1	10	22	20
II	0.6	12	23	22
III	0.3	15	16	14

It has been established that the returns from the three markets are not correlated. Your Managing Director has requested that you should compute the key parameters of the proposed portfolio to assist him in making the investment decision.

REQUIRED:

1. Calculate the risk and return associated with investment in each of the individual capital markets. **(15 marks)**
2. Based on the above information, calculate the risk and return of the proposed international portfolio. Calculate the coefficient of variation of the above portfolio and state what it measures. **(10 marks)**
3. Can benefits of international portfolio diversification in the form of risk reduction be attained? Why? **(10 marks)**

QUESTION THREE: [30 MARKS] INTERNATIONAL PROJECT APPRAISAL

In assessing investment opportunities in a foreign country, it is important for a parent firm to take into consideration the risk arising from the fact that the investments are located in a foreign country. Discuss the various approaches to assessment and management of political risk in foreign projects. **(30 marks)**