**896N1 Multinational Financial Management**

This paper consists of FOUR questions. Each question carries 25 marks.

Your answer to each question should INCLUDE the full references of the articles, books and other sources cited. You can present the references at the end of your answer to each question.

**Assessment Questions**

1. The following plot shows the current account balance (as a percent of GDP) for the five BRICS economies (Brazil, Russia, India, China and South Africa) from the first quarter of 2003 to the second quarter of 2019:



1. Discuss the trend of the current account balance (as a percent of GDP) over the sample period, and its corresponding implication for the degree of competitiveness in international trade, for each economy**.**

**[10 marks]**

1. If you aim to run a domestic business in one of these economies, discuss which economy (out of the five ones) you would choose to invest in, and why?

**[5 marks]**

1. Suppose that you are an analyst for the central bank of Brazil. Discuss how its Balance of Payment accounts are affected by the following: (i) A budget deficit financed by foreign borrowing, and (ii) An export quota for its agricultural commodities.

**[5 marks]**

1. What is the type of exchange rate system adopted by China? Discuss its advantages and disadvantages.

**[5 marks]**

1. The outbreak of the coronavirus (COVID-19) sent most western countries to a deep recession. As a result, the governments and central banks of most countries implemented stimulus policies to tackle the impact of the pandemic on their economies, causing a large increase in the money supply of such economies. For example, the total stimulus plans implemented in the US (mainly through buying US government bonds) increased its money supply by about 7 trillion dollars, since the outbreak of the pandemic. Answer the following questions:
2. Explain the impact of this increase of US money supply on the value of the US dollar. Support your discussion with appropriate graphs**. [6 marks]**
3. Explain what is meant by the bid-ask spread in the foreign exchange (FX) market. Discuss the implication of the coronavirus (COVID-19) outbreak on the bid-ask spread in the FX market**. [5 marks]**
4. Explain the concept of Covered Interest Parity (CIP) in international finance, and discuss how the coronavirus (COVID-19) outbreak may have affected this parity to hold**.**

**[8 marks]**

1. Explain the concept of Uncovered Interest Rate Parity (UIP), and how it differs from the CIP. **[6 marks]**

1. Domestic firms normally experience higher cost of capital than multinational firms.
2. Explain why domestic firms have higher cost of capital. **[7 marks]**
3. Empirical results show the opposite. Multinational firms have higher cost of capital than domestic ones. Explain why this happens.  **[7 marks]**
4. Briefly discuss what firms should do in order to access available capital and lower cost of capital.  **[6 marks]**
5. In the context of multinational capital budgeting, critically discuss why a parent firm located in the US has different cost of capital than its subsidiary located in Indonesia. **[5 marks]**
6. A multinational firm can generate profit from foreign markets through licensing, management contracts and FDI (producing abroad).
7. Discuss the advantages of licensing and management contracts relative to FDI in the context of profit making.  **[6 marks]**
8. Discuss the disadvantages of licensing and management contracts relative to FDI in the context of profit making.  **[6 marks]**
9. How does host country inflation impact on the FDI operations? **[6 marks]**

1. How can the multinational firm mitigate the inflation effects? **[7 marks]**

**END of PAPER**