ABSTRACT

This thesis research investigates the effect of currency controls on the profitability of multinational corporations and on the evaluation of international investment opportunities. Controls may be removed prior to the terminal time period, at the terminal time period, after the terminal time period, or they may never be lifted at all.

In the project evaluation process, the net terminal value of a project will be significantly affected by the timings of the imposition and removal of the currency control. The net cash flows of the pre-currency control period may also get entrapped under the “currency control regime” during the reinvestment phase, which will further lower the terminal value of the project. The negative impact of currency control can be so pronounced that the project may yield a negative rate of return.

The unadjusted net cash flows and percentage changes in exchange rate have proven significantly sensitive to the net cash flow under currency control, the management should prepare several exit strategies like transfer pricing policy, hedging, financing arrangement to secure expected remittance of profit.

There are numerous parameters involved in the project evaluation process, and whether a management team will produce a realized rate of return that will be at least as great as the expected rate of return will depend upon how accurately it can predict the future values of these parameters.

Key words: Currency Control, Project Evaluation, Sensitivity Analysis.

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