JP – 937

IV Semester M.B.A. (Day/Evening) Degree Examination, June 2008
(Updated Scheme)
F-4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

1. Answer **any six** from the following : **(6×2=12)**
   a) What is theory of Comparative Advantage ?
   b) Write the structure of Current Account in B.O.P.
   c) Who are Authorised dealers ?
   d) State three benefits of Centralised Cash Management System.
   e) Explain the terms bid rate and offer rate.
   f) What do you mean by short position ?
   g) What is country risk ?
   h) What is economic exposure ?

SECTION – B

Answer **any four** from the following : **(4×5=20)**

2. In London a dealer quotes GBP/CHF Spot 3.5250/50, GBP/JPY Spot 180.80/181.30. What do you expect CHF/JPY rate to be Geneva ?
3. What are the objectives of I.M.F. ?
4. State the main features of currency futures.
5. One year dollar interest rate is 5%. The GBP rate is 8%. The spot rate of USD against GBP is \$ 1.60.

   Find: 1 month forward, 6 month forward and 1 year forward rates.
6. If Bank 'A' in London Quotes

   USD/CHF : 1.4955/1.4962,

   Bank 'B' in Newyork Quotes

   CHF/USD : 0.6695/0.6699

   is there any arbitrage opportunity ?
7. State the methods of managing transaction exposure.

SECTION – C

Answer **any three** from the following : **(3×10=30)**

8. What is covered interest rate arbitrage ?
   Assume spot rate of £ = \$ 1.60
   180 day forward rate £ = \$ 1.56
   180 day interest rate in U.K. = 4%
   180 day U.S. interest rate = 3%
   Is covered interest arbitrage by U.S. invertor feasible ?

P.T.O.

9. Compare the I.R.P. and P.P.P. theories.

10. A company operating in a country having dollar as its unit of currency, has invoiced to an India Co. The payment being due 3 months from the date of invoice. The invoice amount is $ 13,750. At spot it is equivalent to Rs. 5,00,000. It is anticipated that exchange rate will decline by 5% over three months, and in order to protect the $ payment, the importer proposes to hedge. The 3 month forward rate $ 0.0273. You are required to calculate the expected loss.

    a) If hedged   b) If there is no hedge.

11. Briefly explain the impotant factors that should be assessed from the points of view of Income tax, while entering into foreign collaboration agreement.

12. FDI flows into India are around 3.4% which is very low when compared to China and Hongkong. What policy measures do you think the regulatory authorities should initiate to attract more FDI flow into the country ?

SECTION – D

13. Read the following case and answer the questions. **(1×13=13)**

Hedging Decisions by the Sports Exports Company.

Jim Logan, owner of the Sports Exports Company, will be receiving about 10,000 British pounds about one month from now as payment for exports produced and sent by his firm. Jim is concerned about his exposure because he believes that there are two possible scenarios : (1) the pound will depreciate by 3 percent over the next month or (2) the pound will appreciate by 2 percent over the next month. There is a 70 percent chance that Scenario 1 will occur. There is a 30 percent chance that Scenario 2 will occur.

Jim notices that the prevailing spot rate of the pound is $ 1.65, and the one-month forward rate is about $1.645. Jim can purchase a put option over the counter from a securities firm that has an exercise (strike) price of $1.645, a premium of $.025, and an expiration date of one month from now.

1) Determine the amount of dollars received by the Sports Exports Company if the receivables to be received in one month are not hedged under each of the two exchange rate secnarios.

2) Determine the amount of dollars received by the Sports Exports Company if a put option is used to hedge receivables in one month under each of the two exchange rate scenarios.

3) Determine the amount of dollars received by the Sports Exports Company if a forward hedge is used to hedge receivables in one month under each of the two exchange rate scenarios.

4) Summarize the results of dollars received based on an unhedged strategy, a put option strategy, and a forward hedge strategy. Select the strategy that you prefer based on the information provided.

IV Semester (Day) M.B.A. Examination, June/July 2010
(2007-08 Scheme)
Paper – F.4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

1. Answer **any six** of the following. **Each** question carries **two** marks. **(6×2=12)**

   a) What is the difference between absolute and relative purchasing power parity theory ?

   b) What is straddle ?

   c) What is law of one price ?

   d) Differentiate between risk and exposure.

   e) What is CIA ?

   f) Write about Direct and Indirect quotations.

   g) Define Marking to Market.

   h) Define translation exposure.

SECTION – B

Answer **any three** of the following : **(3×8=24)**

2. Mention the key areas of International Cash Management.

3. Why do companies involved in international trade have to hedge their foreign exchange exposure.

4. The one year forward rate is used as the forecast of the future spot rate. The FFr spot rate is $ 0.40 while its one year forward rate is $ 0.38. The French one year interest rate is 11 %, what is the expected effective yield on a year deposit in France by a US firm ? Give detail calculations.

5. What are the functions of foreign exchange market ?

6. AV Ltd. is the Indian affiliate of a US sports manufacturer. AV Ltd. manufactures items which are sold primarily in the US and Europe. AV's B/S in (000' s)Rupees as of March 31st is as follows :

Assets		Liabilities	
Cash	12,000	Accounts payable	7,000
Accounts receivable	9,000	Short term bank loan	3,000
Inventory	9,000	Long term loan	8,000
		Capital stock	20,000
Net plant and equipment	20,000	Retained earnings	12,000
	50,000		**50,000**

Exchange rates for translating the B/S into US $ are :

Rs. 35/$: Historic exchange rate, at which plant and equipment, long term loan and common stock were acquired or issued.

Rs. 40/$: March 31st exchange rate. This was also the rate at which inventory was acquired.

Rs. 42/$: April 1st exchange rate, after devaluation of 20 %.

Assuming no change in B/S accounts between March 31st and April 1st calculate accounting gain or loss by the CRM and by monetary/non-monetary method. Explain accounting loss in terms of changes in the value of exposed accounts.

SECTION – C

Note : Answer **any two** of the following : **(2×12=24)**

7. State the problems of Multinational Companies relating to working capital management.

8. Company Z wishes to borrow 10 M $ at a fixed rate for 5 years and has been offered either 11 % fixed or 6 months LIBOR + 2 %. Company X wishes to borrow $ 10M at a floating rate for 5 years and has been offered either 10 % fixed or 6 months LIBOR + 1 %. How do they enter into a swap arrangement which benefit them equally ? What are the risks did this arrangement generates ?

9. The current CHF/USD spot is 0.6675. The following 90 days call option on CHF is available :

Strike price	**premium**
0.60	0.75
0.65	0.03
0.68	0.01
0.70	0.005
0.75	0.002

Your view is that CHF is going to make strong up move during the next 90 days. Your risk appetite is moderate. What strategy is suitable for you ? Explain with the pay-off table.

SECTION – D
(Compulsory question) (1×15=15)

10. Suppose that you hold a piece of land in the city of London that you may want to sell in one year. As a US resident, you are concerned with the $ value of the land. Assume that, if the British economy booms in future, the land will be worth 2,000 £ and one British £ will be worth $ 1.40. If the British economy slows down on the other hand, the land will be worth less by 1500 Ps, but the £ will be stronger say 1.50 $ £. You feel that the British economy will experience a boom of 60 % probability and slowdown 40 % probability.

    a) Estimate your exposure to exchange risk.

    b) Compute the variance of $ value of property that is attributable to exchange rate uncertainty.

    c) Discuss how you can handle exchange risk exposure and the consequence of hedging.

IV Semester M.B.A. Degree Examination, June 2011
(2007-08 Scheme)
MANAGEMENT
F-4 : International Financial Management

Time : 3 Hours Max. Marks : 75

Instruction : *Answer **all** Sections. Marks are indicated against **each** Section.*

SECTION – A

1. Answer **any six** of the following : **(6×2=12)**

   a) What do you understand by International Financial Management ?

   b) What are cross rates ?

   c) Define transaction exposure.

   d) What do you understand by "Law of One Price" ?

   e) What is International capital budgeting ?

   f) What is letter of credit ?

   g) Distinguish between direct and indirect quote.

   h) Define speculation.

   i) What are the hedging instruments ?

   j) Define FDI.

SECTION – B

Answer **any three** of the following : **(3×8=24)**

2. What do you know about foreign exchange market ? Explain the factors responsible for exchange rate fluctuation.

3. Define Interest Rate Parity theory. Differentiate IRP theory with PPP theory.

4. Distinguish between forwards and futures.

5. a) The spot rate of $ is 150 ¥. The inflation rate in Japan is 5%, while it is 10% in U.S. What would be the $ rate in terms of ¥ one year hence ?

b) An importer has purchased from Germany goods worth ∈ 50,000. There is no quote available for Rs. versus ∈. The quote available are :

i) US \$ = Rs. 46.50/60 and

ii) US \$ = ∈ 5.2025/50.

What is the value of this transaction in Rupee terms ?

6. Spot Rate = Rs. 45.5300/\$

6-month forward rate = Rs. 44.2100/\$

Interest rate per annum in India = 10%

Interest rate per annum in U.S. = 7%

Given the above data, is there an arbitration possibility. How ? Show the process with hypothetical amount.

SECTION – C

Answer **any two** of the following : **(2×12=24)**

7. Define Balance of Payments. Why would it be useful to examine a country's balance of payments ? Show a typical balance of payments statement showing all the sub-balances.

8. A foreign exchange dealer quoted the following rates for the pound sterling on April 30, 2011.

Spot	1.4710/1.4810
30-day forward	65/44
90-day forward	145/123
180-day forward	290/222

a) Determine the outright quotations for the pound sterling.

b) Was the pound sterling selling at a forward premium or forward discount on that date ? Calculate the forward premium (or discount) on the 90-day forward contract. Use ask (offer) rate to answer this question.

c) How many U.S. dollars would it cost you to buy £ 10,00,000 on April 30, 2011 ?

d) If you expect to receive £ 10,00,000 in 180 days from the quotation date, how many U.S. dollars would you expect to realise by selling them forward ?

9. If a person exports 100 pieces of Jewellery to USA, price per piece is 200 \$, while he imports material from Japan and price per piece is 6000 ¥ , if labour rate is ₹ 1000 per piece and variable 0.4 per piece ₹ 500 if the spot rate is ₹ 50/\$ and 120 ¥ /\$ and one month later when the exports take place one \$ = ₹ 53 and one \$ = 110 ¥, compute transaction exposure. If the company maintains its export price in rupee and price elasticity of demand is 2 what will be the economic exposure ?

SECTION – D

Case Study (Compulsory) **(1×15=15)**

10. Indian importer imports goods worth US \$ 1000 from USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate, so it thinks about selecting a particular alternative.
    i) Spot rate in ₹ 42/\$
    ii) 90 days forward rate is ₹ 40/\$
    iii) Interest rate on borrowing in Indian USA is 6% p.a.
    iv) Interest rate on deposit is 5% p.a.
    v) A 90 days call option is having a strike price of ₹ 39.60 and a premium of ₹ 0.05/\$
    vi) A 90 days put option is having exercise price of ₹ 39.80 and a premium of ₹ 0.05/\$
    vii) Spot rate on the 90^{th} day is ₹ 40.10/\$.

    Evaluate each method of payment.

PG – 122

IV Semester M.B.A. Degree Examination, June/July 2012
(2007-08 Scheme)
MANAGEMENT
F4 : International Financial Management

Time : 3 Hours Max. Marks : 75

Instruction *:* Answer **all** the Sections.

SECTION – A

1. Answer **any six** questions : **(6×2=12)**

   a) Distinguish between leads and lags.

   b) What is Swaption ?

   c) What is cross rate ?

   d) What do you mean by back-to-back deal ?

   e) What is crawling peg ?

   f) Find the real interest rate if nominal interest rate is 15% and rate of inflection is 9%.

   g) If interest rate in India and the USA are 9.06% and 6% and if spot exchange rate is Rs. 43.91/US $. Find the exchange rate during the next year.

   h) What is official Reserve Account ?

SECTION – B

Answer **any three** questions : **(3×8=24)**

2. How has the growth in International Trade and MNC been responsible for growing importance of the study of international finance ?

3. Discuss the importance of IMF in India.

4. 'Is International working Capital Management more complex than the domestic working Capital Management' Discuss.

5. a) A firm in England has to make a payment of SGD 1 million to its supplier in Singapore. The currency quotes available are as follows :

GBP 0.0117/0.0119 for INR

SGD 0.03510/0.03520 for INR

What is the amount to be paid in British pounds by the importer ?

b) One year dollar interest rate is 5%. The GBP rate is 8%. The spot rate of USD against GBP is $ 1.60. Find 6 months forward rate.

6. ABC Ltd. is the Indian affiliate of a US sports manufacturer. ABC Ltd. Manufactures items which are sold primarily in the US and Europe. ABC's B/S in 000' s of Rupees as of March 31st is as follows :

Assets	**Rs.**	**Liabilities**	**Rs.**
Cash	6,000	Accounts payable	3,500
Accounts receivable	4,500	Short term bank loan	1,500
Inventory	4,500	Long term loan	4,000
Net plant and Equipment	10,000	Capital stock	10,000
		Retained earnings	6,000
	25,000		**25,000**

Exchange rates for translating the B/S into US $ are :

1) Rs. 40/$; Historic Exchange rate

2) Rs. 45/$ March 31st Exchange rate

3) Rs. 47/$ April 1st Exchange rate, after devaluation of 20%

Assuming no change in B/S accounts b/w March 31st and April 1st, calculate accounting gain or loss by the current rate method and by monetary/ non-monetary method. Explain accounting loss in terms of changes in the value of exposed accounts.

SECTION – C

Answer **any two** questions : **(2×12=24)**

7. What is covered interest rate arbitrage ?

   Assume spot rate of £ = \$ 1.60

   180 day forward rate £ = \$ 1.56

   180 day interest rate in UK = 4%

   180 day US interest rate = 3%

   Is covered interest arbitrage by US invertor feasible ?

8. Explain the various sources of International Finance and criteria followed while raising funds from International Financial Market.

9. Indian Importer imports goods worth US \$ 1,000 from the USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate and so it thinks about selecting a particular alternative

   1) Spot rate is ₹ 45/ \$

   2) 90 days FR is ₹ 42/\$

   3) Interest rate on borrowing in India and USA is 6% p.a.

   4) Interest rate on deposit /Investment is 5% p.a.

   5) A 90 day call option is having a strike price of ₹ 42.10 and a premium of ₹ 0.05/\$

   6) A 90 day put option is having exercise price of ₹ 42.30 and a premium of ₹ 0.05/\$

   7) Spot rate on the 90th day is ₹ 42.30/\$

   Suggest the suitable alternative to the importer.

SECTION – D

10. Case Study (**Compulsory**) : (15×1=15)

How to manage the transaction exposure ? Assume a person Exports 100 articles to USA and price per article is 200 $ while he imports, material from Japan and price per article is 5,000 ¥. If labour rate is ₹ 1,000 per article and variable O.H per article is ₹ 500 if the SR is ₹ 45 / $ and ¥/110/$ and one month later when the exports take place one $ = ₹ 50 and one $ is 100 ¥. compute the transaction exposure, what will be Economic Exposure, if company maintains its export price in rupees and price elasticity of demand is 2 ?

IV Semester M.B.A. (Day) Degree Examination, June/July 2013
(2007-08 Scheme)
Management
F-4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A (6×2=12)

Note : Answer **any six** of the following questions. **Each one** carries **two** marks.

1. a) Explain the term 'Balance of payments'.
   b) What is meant by direct quote ?
   c) What do you understand by the term 'swap' ?
   d) What is meant by foreign exchange risk ?
   e) Distinguish between FDI and PFI.
   f) What is meant by Euro currency ?
   g) What do you understand by the term bilateral relief ?
   h) What do you mean by tax haven subsidiary ?

SECTION – B (3×8=24)

Note : Answer **any three** of the following questions. **Each one** carries **eight** marks.

2. Distinguish between translation, transaction and economic exposures.
3. What are the double taxation relief provisions available in Indian tax laws ?
4. Discuss the funding avenues in global capital markets.

P.T.O.

5. A foreign exchange dealer has assumed the following information for a particular bank :

	Quoted price
Value of Canadian dollar in U.S. dollars	\$.90
Value of New Zealand dollar in U.S. dollars	\$.30
Value of Canadian dollar in New Zealand dollars	NZ\$3.02

a) On the basis of the above information, is Triangular Arbitrage possible ? If yes, explain the steps that would reflect Triangular Arbitrage. Also calculate the profit from this strategy if you had \$ 1,500,000 to use.

b) What market forces would occur to eliminate any further possibilities of Triangular Arbitrage ?

6. Stoner U.K., the British subsidiary of Stoner U.S. has current assets of £2 million, fixed assets of £3 million, and current liabilities of £2 million. Stoner has no long-term liabilities.

a) Calculate Stoner U.K.'s translation exposure under all the four translation methods.

b) If the pound is assumed to be the functional currency, and it depreciates from \$1.60 to \$1.50, calculate the FASB-52 translation gain (loss) that will be reflected in the CTA account ?

c) Included in current assets in inventory of £0.7 million. Assume the historical exchange rates for inventory and fixed assets are \$1.45 and \$1.65 and dollar is the functional currency. Calculate Stoner U.K.'s translation gain or loss.

SECTION – C (2x12=24)

Note : Answer **any two** of the following questions. **Each** one carries **twelve** marks.

7. Trace the evolution of fixed and floating exchange rates in international monetary system.

8. LSE Corporation hedges a portfolio of German government bonds with a six-month forward contract. The current spot rate is Euro .65/\$ and the 180-day forward rate is DM .61/\$. At the end of the six-month period, the bonds have risen in value by 3.50% (in Euro terms) and the spot rate is now Euro .45/\$.

a) If the bonds earn interest at the annual rate of 5% paid semi-annually, what is the LSE Corporation's total dollar return on the hedged bonds ?

b) Calculate the return on the bonds without hedging.

c) Calculate the true cost of the forward contract.

Assume that the value of the German government bonds are 10,000 DM.

9. Companies A and B has been offered the following rates per annum on a $20 million five-year loan :

	Fixed rate	Floating rate
Company A	13.0%	LIBOR + 0.3%
Company B	14.5%	LIBOR + 0.5%

Company A requires a floating-rate loan; company B requires a fixed-rate loan. Design a swap that will net a bank, acting as intermediary, 0.2% per annum and that will appear equally attractive to both companies.

SECTION – D (1×15=15)

(Compulsory)

10. Case study.

Compaque Company has to make a US$ 1 million payment in 3 months time. The dollars are available now. You decide to invest them for 3 months.

US deposit rate : 9% p.a.

UK deposit rate : 10% p.a.

Present Spot rate is $ 1.90/pound

Three month forward rate is $ 1.88/pound

a) Where should the company invest for better returns ?

b) Assuming that the interest rates and the returns spot exchange rate remain as above, what forward rate would yield an equilibrium situation ?

c) If the sterling deposit rate was 12% p.a. and all other rates remain as in the original question, where should you invest ?

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PG – 785

IV Semester M.B.A. Degree Examination, July/August 2014
(2007-08 Scheme)
MANAGEMENT
F-4 : International Financial Management

Time : 3 Hours Max. Marks : 75

Instruction : *Answer **all** the sections.*

SECTION – A

1. Answer **any six** sub questions, **each** question carries **two** marks. **(6×2=12)**
   a) What is Translation exposure ?
   b) State any four hedging instruments.
   c) What do you mean by TT buying and TT selling ?
   d) What is covered Interest rate Arbitrage ?
   e) What is Pip ?
   f) What is plain vanilla currency swap ?
   g) State the advantages of IFM.
   h) The spot rate of \$ is 140 ¥. The inflation rate in Japan is 4%, while it is 8% in US. What would be the \$ rate in terms of ¥ one year hence ?

SECTION – B

Answer **any three** questions from the following, **each** question carries **eight** marks. **(3×8=24)**

2. Explain the features of future market.
3. Is devaluation good for exports and imports? Why is the impact of devaluation usually not immediate ? Explain.
4. a) Spot rate is ₹ 54.50/ \$. Three months forward rate is ₹ 54.30/ \$. Speculator's own estimate is that the future spot rates after three months should be ₹ 54.10/ \$. Will the speculator go for a forward contract if he has \$10,000 at his disposal.
   b) An American exporter exporting goods to UK fears a depreciation of £. £ options are available at a strike price of \$ 1.884/ £ with a premium of \$ 0.03/ £. The spot rate on the maturity falls to \$ 1.824/£. How will he compensate his loss ?

P.T.O.

5. You have called your foreign exchange trader and asked for quotations on the spot, 1 month, 3 months and six months. The trader has responded with the following S value, on April 2013. 1.5710/1.5810,65/44,145/123, 290/222.

   a) Determine the outright quotations for the pound sterling.

   b) Was the pound sterling at a forward premium or discount on that date ? Calculate the forward premium or discount.

   c) How many US $ would it cost you to buy £ 10,00,000 on April 30, 2013 Spot price ?

   d) If you wanted to purchase Spot US $, how much would have to pay in £ ?

6. Gold Ltd. is wholly owned subsidiary of British based company. Following is the Non-consolidated balance sheets of both Platinum Ltd. a parent company and Gold a subsidiary.

Assets	**Platinum (GBP)**	**Gold (INR)**	**Liabilities**	**Platinum (GBP)**	**Gold (INR)**
Plant and Machinery	5,000	1,25,000	Equity	4,500	1,00,000
Investments	3,000	_	Retained earnings	1,850	48,000
Cash	1,100	18,000	Long term loan	4,000	35,000
Stock	1,500	45,000	Payables	1,500	25,000
Receivables	1,250	20,000			
Total	**11,850**	**2,08,000**	**Total**	**11,850**	**2,08,000**

The historical rate applicable for assets and liabilities is ₹ 75,75 and the current spot rate is ₹ 83.85. Prepare a consolidated B/S by assuming monetary and Non-monetary method of transaction.

SECTION – C

Answer **any two** of the following, **each** question carries **twelve** marks. **(2×12=24)**

7. What do you mean by Depository receipt ? And also explain the mechanism of depository receipt. What are its advantages ?

8. Currency exchange rates and euro currency interest rates are as follows ;

   Current Singapore Dollar (S $) spot rate $ 0.55/S$, 1 year Singapore Dollar (S$) forward rate $ 0.56/S$, 1 year Singapore Dollar (S$) interest rate 4.5%, 1 year US interest rate 6.5%

   In what direction will covered interest arbitrage force the quoted rates to change ?

   Explain the steps and complete the profit based on a $ 1 million initial position.

9. Indian importer imports goods worth US \$ 1,000 from USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate, So it thinks about selecting a particular alternative.
   i) Spot rate in ₹ 58/ \$
   ii) 90 days forward rate is ₹ 56/ \$
   iii) Interest rate on borrowing in India is 6% p.a.
   iv) Interest rate on deposit in USA is 5% p.a.
   v) A 90 days call option is having a strike price of ₹ 49.60 and a premium of ₹ 0.05/ \$
   vi) A 90 days put option is having exercise price of ₹ 49.80 and a premium of ₹ 0.05/ \$
   vii) Spot rate on the 90th day is ₹ 50.10/ \$. Evaluate each method of payment.

SECTION – D

10. Case study **(Compulsory).** **(15×1=15)**

A UK Multinational wants to evaluate the PV of a loan denominated in Australian dollars. It prefers to evaluate the Australian dollar debt using the typical decentralized technique, in which the Australian dollar cash flows are discounted and then converted to US \$ at the prevailing Spot rate. The spot exchange rate is currently 3.15 A \$/£ .The firm is considering four year debt in the amount of A\$ 10,500,000 at an interest rate of 15%. The loan structure provides for payment of interest repayment of all principal in one lumpsum 4 years from now. The corporation tax rate is 24%, and the firm will be able to realize all benefits of the tax related debt shield. The cost of borrowing for the firm in US \$ is 10.5%. The risk free interest rate in the UK is 10%. and the risk free parity rate in Australia is 15.5%. If the firm decides to use uncovered interest parity to form expectations of future spot exchange rates. Calculate the four year ahead forecast.

a) What is the PV of the Australian dollar financing, using the decentralised technique ?

b) Instead of using the decentralised technique, the firm is considering a centralized technique, in which the Australian \$ cash flow are converted to UK £ and subsequently discounted at the UK £ cost of debt. If the firm uses uncovered interest parity in the risk free deposit markets to forecast future exchange rates. What is the PV of the loan calculated to be ? Explain your reasoning.

IV Semester M.B.A. Degree Examination, June/July 2015
(2007-08 Scheme)
F.4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours   Max. Marks : 75

SECTION – A

Answer **any six** of the following questions. **Each** question carries **two** marks. **(6x2=12)**

1. a) State any two benefits to host and home country from FDI.
   b) What do you mean by translational exposure ?
   c) What is Coupon Swaps ?
   d) Distinguish between Hedging and Speculation.
   e) What is Country Risk ?
   f) What is bilateral relief ?
   g) What is cross rate quoting ?
   h) Find the one month forward rate of US $, if spot rate is Rs. 62 and the forward premium is 13%.

SECTION – B

Answer **any three** of the following questions. **Each** question carries **eight** marks. **(3x8=24)**

2. Explain tax neutrality and tax equity.

3. How MNC's cost of capital is different from domestic companies cost of capital ?

4. a) If exchange rate at the end of 2014-2015 is Rs. 63.91/US$ and if the rate of inflation in India and USA during 2014-2015 is respectively 6% and 4%. Find :
      i) Inflation rate differential between the two countries and
      ii) The exchange rate at the end of 2014-15.
   b) If real interest rate is 8% and the inflation rate is 10%, what would be the nominal interest rate ?

5. Explain the role of GDR as a financial instrument.

6. The following exchange rates are quoted by different banks. ABC bank quotes $ 0.8645/€, XYZ bank quotes $ 1.5553/£ . PQR bank quotes 1.7200 €/£. A market trader would like to sell 1 million $ to XYZ bank at spot rate. What will be the profit/loss from interbank transactions ?

SECTION – C

Answer **any two** of the following. **Each** question carries **twelve** marks. **(2×12=24)**

7. What is transaction exposure ? How do you manage the transaction exposure ? Explain.

8. The currency exchange rates and interest rates are as follows :

   Current Singapore dollar (S$) spot rate $ 0.76/S$

   1 year Singapore dollar (S$) forward rate $ 0.78/S$

   1 year Singapore dollar (S$) interest rate 6.5%

   1 year U.S. interest rate 8.5%

   In what direction will covered interest arbitrage force the quoted rates to change ? Is there any arbitrage possibilities ? Assume the transaction value is $ 1 million.

9. Miller U.S., the American subsidiary of Miller U.K has current assets of $ 5 million, fixed assets of $ 6 million. Miller has no long term liabilities.

   a) Calculate Miller U.S's translation exposure under all the four translation methods

   b) If the $ is assumed to be the functional currency, and it depreciates from 1 £ to £ 0.8, calculate the translation gain/loss that will be reflected in the CTA account.

   c) Included in the current assets is inventory $ 2.3 million. Assume the historical exchange rates for inventory and fixed assets are £ 0.75 and £ 0.95 and pound is the functional currency. Calculate Miller U.S's translation gain or loss.

SECTION – D

10. Case study (**compulsory**) : **(1×15=15)**

    An exporter is exporting 500 articles at a cost of $ 80 each and importing 500 units of material at 30 €/unit, he incurs other variable expenses of Rs. 40,000 at the time of entering into contract, the exchange rate is Rs. 60/$, at the time of export it is Rs. 58/$. While Rs/€ at the time of order is Rs. 65/€, at the time of export is Rs. 68/€. If the price elasticity of demand is 2, what are the transaction and economic exposure ?

PG – 952

IV Semester M.B.A. Degree Examination, July 2016
(2007-08 Scheme)
MANAGEMENT
F-4 : International Financial Management

Time : 3 Hours   Max. Marks : 75

Instruction : *Answer **all** Sections.*

SECTION – A

1. Answer **any six** of the following. **Each** question carries **two** marks. **(6×2=12)**
   a) What is interest rate parity ?
   b) What is balance of payment ?
   c) State any two differences between future and options.
   d) Define transaction exposure.
   e) What is straddles ?
   f) What do you mean by official reserve account ?
   g) What is swap points ?
   h) Differentiate between speculators and arbitrageurs.

SECTION – B

Answer **any three** of the following. **Each** question carries **eight** marks. **(3×8=24)**

2. Why is it important to study of International financial management ?

3. Company A, a low-rated firm, desires a fixed-rate, long term loan. A presently has access to floating interest rate funds at a margin of 2.5% over LIBOR. Its direct borrowing cost is 15% in the fixed-rate bond market. In contrast, company B, which prefers a floating-rate loan, has access to fixed-rate funds in the Eurodollar bond market at 12% and floating-rate funds at LIBOR + 1/2%.
   i) How can A and B use a swap to advantage ?
   ii) Suppose they split the cost savings. How much would A pay for its fixed-rate funds ? How much would B pay for its floating-rate funds ?

P.T.O.

4. a) The Danish Kroner is quoted in New York at \$0.16566/Dkr. Spot, \$0.16583/Dkr 30 days forward, \$0.16510/Dkr 90 days forward and \$0.16485/Dkr 180 days forward, calculate the forward discounts or premiums on the Kroner.

   b) Find the one month FR of US \$ if spot rate is ₹ 45 and the forward premium is 12%.

5. How to manage the transaction exposure ? Assume a person exports 100 articles to USA and price per article is 200 \$ while he imports, material from Japan and price per article is 5,000 ¥. If labour rate is ₹ 1,000 per article and variable O.H per article is ₹ 500 if the SR is ₹ 45/\$ and ¥/110/\$ and one month later when the exports take place one \$ = ₹ 50 and one \$ is 100 ¥. Compute the transaction exposure, what will be economic exposure, if company maintains its export price in rupees and price elasticity of demand is 2 ?

6. From the following data, calculate the possibilities of gain/loss in the arbitrage.

   Spot rate of FFr 8.2000/\$, 6 months forward rate is 8.2030/\$

   Annualised interest rate on 6 months US \$ = 8%

   Annualised interest rate on 6 months FFr = 10%.

SECTION – C

Answer **any two** of the following. **Each** question carries **twelve** marks. **(2×12=24)**

7. a) Explain the challenges of multinational working capital management with examples.

   b) What is global cost of capital ? How it different from domestic cost of capital ?

8. RV Ltd. is the Indian affiliate of a US sports manufacturer. RV Ltd. Manufactures items which are sold primarily in the US and Europe.

   RV' B/S in (000's) rupees as March 31st is as follows :

Assets		**Liabilities**	
Cash	12,000	Accounts payable	7,000
Accounts receivable	9,000	Short term bank loan	3,000
Inventory	9,000	Long term loan	8,000
Net plant and equipment	20,000	Capital stock	20,000
		Retained earnings	12,000
	50,000		**50,000**

Exchange rates for translating the B/S into US $ are :

Rs. 35/$: Historic exchange rate, at which plant and equipment, long term loan and common stock were acquired or issued.

Rs. 40/$: March 31st exchange rate. This was also the rate at which inventory was acquired.

Rs. 42/$: April 1st exchange rate, after devaluation of 20%.

Assuming no change in B/S accounts between March 31st and April 1st calculate accounting gain or loss by the CRM and by monetary/non-monetary method. Explain accounting loss in terms in the value of exposed accounts.

9. An importer imports goods worth £ 62,500. He expects an appreciation of £, so he goes for heading the risks. The currency market has the following data :

   a) Spot rate on the date of contract Rs. 68/£

   b) 3 months forward rate Rs. 68.50/£

   c) Strike rate in a 3 months call option Rs. 68.60/£ with 5% premium

   d) Strike rate in a 3 months put option Rs. 68.80/£ with 5% premium

   e) Spot rate on the date of payments/maturity Rs. 68.90/£ will he go for a hedge ? Is so, which option he will select ?

SECTION – D

10. Case study (**compulsory**). **(1×15=15)**

A U.K. multinational wants to evaluate the present value of a loan denominated in Australian dollars. It prefers to evaluate the Australian dollar debt using the typical decentralized technique, in which the Australian dollar cash flows are discounted and then converted to U.S. dollars at the prevailing spot rate. The spot exchange rate is currently 1 pound/2.15 A$. The firm is considering four-year debt in the amount of A$ 12,500,000, at an interest rate of 25 percent. The loan structure provides for payment of interest and repayment of all principal in one lump sum four years from now. The corporation's tax rate is 34 percent, and the firm will be able to realize all benefits of the tax-related debt shield. The cost of borrowing for the firm in U.S. dollars is 12.5 percent.

The risk-free interest rate in the U.K. is 10 percent and the risk-free parity rate in Australia is 20.5 percent. If the firm decides to use uncovered interest parity to form expectations of future spot exchange rates, calculate the four-year-ahead forecast.

a) What is the present value of the Australian dollar financing, using the decentralized technique ?

b) Instead of using the decentralised technique, the firm is considering a centralized technique, in which the Australian dollar cash flow are converted to U.K. pounds and subsequently discounted at the U.K. pound cost of debt. If the firm uses uncovered interest parity in the risk-free deposit markets to forecast future exchange rates, what is the present value of the loan calculated to be ? Explain your reasoning.

IV Semester M.B.A. Degree Examination, July 2017
(2007 – 08 Scheme)
Management
F-4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours   Max. Marks : 75

SECTION – A

1. Answer **any six** of the following, **each** question carries **two** marks : **(6x2=12)**
   a) What is foreign exchange risk management ?
   b) What is Multinational Capital Budgeting ?
   c) What is leading and lagging ?
   d) What is exposure netting ?
   e) What do you mean by translational exposure ?
   f) What is marking to market ?
   g) Mention any two challenges of MNC's working capital management.
   h) Find out the bid rate if ask rate is Rs. 60.50/US $ and the bid-ask spread is 1.25%.

SECTION – B

Answer **any three** of the following, **each** question carries **eight** marks : **(3x8=24)**

2. Explain the factors influencing on determination of exchange rate.
3. Distinguish between IFM and FM.
4. Explain the different types of international taxation.
5. On October 5th Newyork quoted the DM was \$0.5876/DM and French Francs was quoted \$ 0.4133/FFr. On this date if Paris was quoting 2.7500 FFr/DM and 5.6875 FFr/\$. What are the incentives for arbitrage ?

6. Xing Ltd. is the Indian affiliate of a US manufacturer. Xing Ltd. manufactures items which are sold primarily in the US and Europe. Xing Balance Sheet in 000's of Rupees as on March 31st is as follows :

Assets	Rs.	Liabilities	Rs.
Cash	10,000	Accounts payable	5,500
Accounts Receivables	8,500	Short term bank loan	3,500
Inventory	9,000	Long term loan	6,000
Net Plant and Equipment	25,000	Capital stock	25,000
		Retained earnings	12,500
	52,500		**52,500**

Exchange rates for translating the balance sheet into US dollars are :

Rs. 55/$: Historic exchange rate, at which plant and equipment, long term loan and common stock were acquired or issued.

Rs. 60/$ on 31 march exchange rate. This was also the rate at which inventory was acquired. Calculate accounting gain or loss and accounting exposure by current rate method and monetary and non-monetary method.

SECTION – C

Answer **any two** of the following, **each** question carries **twelve** marks : **(2×12=24)**

7. What are depository receipts ? Explain the importance of different types of depository receipts in international financial market.

8. Companies A and B has been offered the following rates per annum on a $20 million five year loan :

Company	Fixed Rate	Floating Rate
Company A	13.0%	LIBOR + 0.3%
Company B	14.5%	LIBOR + 0.5%

Company A requires a floating rate loan; company B requires a fixed rate loan. Design a swap that will net a bank, acting as intermediary 0.2% per annum and that will appear equally attractive to both companies.

9. From the following data calculate the possibilities of a gain/loss in arbitrage.

   Spot rate FFr 8.00 = 1$

   6 months forward rate FFr 8.0200 = 1$

   Annualised interest rate on 6 months US$ = 5%

   Annualised interest rate on 6 months FFr = 8%.

SECTION – D

10. Case study (**Compulsory**). **(1×15=15)**

    An European importer imports goods worth of 1000 US $ from USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate and it thinks about selling a particular alternative, spot rate € 1.2/ $, 90 days forward rate € 1.05/$. Interest rate on borrowings in Europe and USA is 6% p.a. Interest rate on deposits or investments is 5% p.a.

    In 90 days call option is having a strike price of € 1.07/$ and a premium of € 0.05/$.

    A 90 days put option is having exercise price of € 1.09/$ and a premium of € 0.05/$.

    Spot rate on 90th day rate is € 1.098/$. Suggest the importer which alternative is beneficial ?
