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14MBAFM410

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

Fourth Semester MBA Degree Examination, Dec.2017/Jan.2018
International Financial Management

Time: 3 hrs. Max. Marks:100

SECTION - A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 What do you mean by SDR? **(03 Marks)**

2 What is Current Account generally composed of? **(03 Marks)**

3 What is SWIFT? **(03 Marks)**

4 Explain Multilateral Netting. **(03 Marks)**

5 What is International Capital Budgeting? **(03 Marks)**

6 Define Translation Exposure. **(03 Marks)**

7 Suppose the exchange note between US \$ and FFr was 1 \$ = FFr 5.9 and exchange note between US \$ British £ was 1£, \$ 1.50. Calculate the exchange note between FFr and £. **(03 Marks)**

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Differentiate between Spot and Forward Market. **(07 Marks)**

2 Discuss the distinguishing features of International Finance. **(07 Marks)**

3 Write a note on the following :
a. Global bond.
b. American depository receipt.
c. Zero coupon bonds. **(07 Marks)**

4 Why did the Bretton Woods agreement collapse? **(07 Marks)**

5 You are required to find the overall balance showing clearly all the sub – balances from the following data :
a. Uniliver of US invests in India Rs 3,00,000 to modernize its Indian subsidiary.
b. A tourists from Egypt buys souvenirs worth Rs 3000 to carry with him. He also pays hotel and travel bills of Rs 5000 to Delhi tourist agency.
c. The Indian subsidiary of Unilever remits, as usual, Rs 5000 as dividends to its parent company in the USA.
d. The Indian subsidiary of Unilever sells a part of its production in other Asian Countries for Rs 1,00,000.
e. The Indian subsidiary borrows a sum of Rs 2,00,000 (to be paid back in a year's time) from the Germany money market to resolve its urgent liquidity problem.
f. An Indian company buys a machine for Rs 1,00,000 from Japan are 60% payment is made immediately ; the remaining amount is to be paid after 3 years.
g. An Indian subsidiary of a French Company borrows Rs 50,000 from the Indian public to invest in the modernization program. **(07 Marks)**

6 The US inflation rate is expected to average about 4% annually while Indian interest rate is expected to average about 12% annually. If the current spot rate for Rupee is $ 0.0285, what is the expected spot rate in two years? **(07 Marks)**

7 Convert the following rates into outright rates and calculate their spread :
Spot rate Rs/$ 43.6300-25
1 month forward 20/25
3 month forward 25/35
6 month forward 30/40 **(07 Marks)**

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Set out below is a table of cross rates :

	Deutsch Mark	Dollar	French Fresc	Pound sterling
Frankfurt	-	2.2800	0.4810	4.0205
New York	0.4400	-	0.2100	2.800
Paris	2.0900	4.8300	-	8.3400
London	4.0100	1.8700	7.4200	-

Note that for Frankfurt, New York and Paris, all quotes are direct for London all quotes are indirect. If all the above are available at the same instant in time and assuming no transaction costs, how might a trader take advantage of the situation. **(10 Marks)**

2 Exchange rates : Can $ 0.665 per DM (spot).
Can $ 0.670 per DM (3 month forward).
Interest rates : DM 7% p.a
Can $ 9% p.a.
Calculate the arbitrage gain possible from the above data. **(10 Marks)**

3 From the following show how opportunity of triangular arbitrage exist, if you have $ 10000 (MYR = Ringit of Myanmar). **(10 Marks)**

Quote	Bid Rate	Ask Rate
Value of £ in US $	$ 1.600	$ 1.610
Value of MYR in US $	$ 0.200	$ 0.201
Value of £ in MYR	MYR 8.10	MYR 8.20

4 The following information is available for the US and Europe :

Particular	US	Europe
Nominal Interest Rates	4%	6%
Expected Inflation	2%	5%
Spot Rate	-	$ 1.13
One year forward rate	-	$ 1.10

i) Does interest rate parity hold?
ii) According to PPP, what is the expected spot rate of the € in one year.
iii) According to IFE, what is the expected sport rate of the € in one year. **(10 Marks)**

5 What are the methods used to invest internationally? **(10 Marks)**

6 What are the various 'exchange rate regimes' according to IMF? **(10 Marks)**

7 Company A & B have been offered the following rates per annum on a $ 20 million five year loan.

Company	Rate	Floating Rate
A	12.0%	(1 BOR + 0.1%)
B	13.4%	(1 BOR + 0.6%)

A requires a floaty rate load and B requires fixed rate. Design a swap that will neat a bank acting as intermediary, 0.1% p.a and equally attractive to both companies. Clearly explain the cash flow of both companies and the bank. **(10 Marks)**

SECTION - D
CASE STUDY – [Compulsory]

New Haven a dealer based in Europe, is owned by a MNC Inc. of US. Given below is New Haven Balance sheet at the current exchange rate of $ 1.50/€

	Value in €	Value @ $ 1.50/€
Assets		
Cash	50000	75000
Accounts receivable	30000	45000
Inventory	20000	30000
Plant & Equipment	600000	900000
Total Assets	7,00,000	10,50,000
Liabilities :		
Accounts payable	150000	225000
Short term Debt	60000	90000
Long term Debt Networth	410000	615000
Total liabilities & Networth	700000	10,50,000

i) Suppose the Euro depreciates by 25%, identify the impact of a 25% depreciation of the Euro on New Havens consolidated balance sheet under each Accounting method.

ii) Calculate the Company's exposed assets expressed liabilities and Net exposed assets under each Accounting translation method. **(20 Marks)**

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