USN | | | | | | | | | |

14MBAFM410

Fourth Semester MBA Degree Examination, June/July 2016

International Financial Management

Time: 3 hrs. Max. Marks:100

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.

SECTION - A

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

1 What is Forward Rate Agreement? **(03 Marks)**

2 What is International Finance? **(03 Marks)**

3 What is Multilateral netting? **(03 Marks)**

4 What do you mean by dirty float? **(03 Marks)**

5 Indentify the quote and covert into its reciprocal quote [From India Perspective] s(₹/$) = 48.0050. **(03 Marks)**

6 What are SDR? **(03 Marks)**

7 Distinguish between depreciation and devaluation. **(03 Marks)**

SECTION - B

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

1 What are the distinguishing features of international finance? Explain. **(07 Marks)**

2 Explain in detail European Monetary system. **(07 Marks)**

3 Who are the major participants of Forex Market? **(07 Marks)**

4 Record the following transaction and prepare BOP.
   a) A US form export $ 10,000 goods
   b) A US citizen visits London and spends $ 400 on tourism.
   c) US government gives $ 200 to Ugonda government for aid
   d) A US citizen purchased foreign stock for $ 800 and pays for it by increasing foreign bank balance.
   e) A foreign investor purchases $ 600 of US T-bills and pays by drawing down his bank balance in equal amount. **(07 Marks)**

5 Discuss the advantages and disadvantages of maintaining multiple manufacturing sites in various countries as a hedge against exchange rate exposure. **(07 Marks)**

6 What are the main distinctions between forward and future contracts? **(07 Marks)**

7 Show the arbitrage opportunity and show the profit for $ 50, 00,000.

Credit Lyonnais	:	S (ε / $) = 0.7627
Barclays	:	S($ /£) = 1.9072
Credit Agricole	:	A(ε /£) = 1.4490

(07 Marks)

SECTION - C

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

1 Briefly explain the objectives and functions of International Monetary Fund (IMF). **(10 Marks)**

2 You have called for a foreign exchange trader and asked for quotations on the spot, 1 month, 3 month, 6 month. The trader has responded with the following.
$ 0.024479/81 3/5 8/7 13/10

a) What does it mean in terms of $ per euro?
b) If you wish to buy spot euro's, how would you pay in Dollars?
c) If you with to buy spot US $, how much would you pay euros?
d) What is the premium/ Discuss in the 1 month, 3 month and six month forward rate in annualized percentage (Assuming you are buying euros) **(10 Marks)**

3 Write a note on the following : **(10 Marks)**
i) LIBOR ii) Floating rate iii) Dual currency bonds iv) Letter of credit v) Open account.

4 Determine the arbitrage gain from the following data :

Spot rate	:	₹ 78.10/£	
3 months forward rate	:	₹ 78.60/£	
3 months interest rate	:	₹ 9%	£ 5%

Assume ₹ 10 million borrowing or £ 2, 00,000 to explain your answer. **(10 Marks)**

5 Define translation exposure. Briefly explain the methods for managing translation exposure. **(10 Marks)**

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

Company	Rate	Floating Rate
A	12.0%	LIBOR + 0.1%
B	13.4%	LIBOR + 0.6%

A requires a floating rate loan and B requires fixed rates. Design a swap that will net 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)**

7 Set out below is a table of cross rates :-

	Deutsch mark	Dollar	French Franc	Pound sterling
Frank Furt	-	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 Frankfort, New York and Paris, all quotes are direct for London all quotes are indirect. If all above quotes are available at the same instant in time and assuming no transition costs, how might a trader take advantage of the situation? Explain your answer with 100 units of currency. **(10 Marks)**

SECTION - D

CASE STUDY – [Compulsory]

Indian Pharma limited, an Indian based multinational company, is evaluating an overseas investment proposal. Indian Pharms's export of pharmaceuticals products have increased to such an extent that is considering a project to build a plant in the u.s. The project will entail an initial outflow of $ 100 million and is expected to generate the following cash flows over its 4 years life.

Year	1	2	3	4
Cash flow (in million $)	30	40	50	60

The current spot exchange rate is ₹ 45 per US $. Risk free rate in India is 11% and risk free rate of interest in US is6%. Indian pharma required rate of return on a project of this kind is 15%. Should India pharma undertake this project? Use both home and foreign currency approach. **(20 Marks)**

* * * * *