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14MBAFM410

Fourth Semester MBA Degree Examination, June/July 2017
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 is full capital Account convertibility? (03 Marks)
- 2 If USD/INR: 65/65.50, GBP/USD : 1.25/1.27, what is GBP/INR rate? (03 Marks)
- 3 What is licensing? What are its advantages? (03 Marks)
- 4 Explain cross listing of shares. (03 Marks)
- 5 Country A has to pay 5 million \$ to country B and country B has to pay 12.5 million \$ to country C. country C has to pay 3 million dollar to country A. use the process of netting for the above. (03 Marks)
- 6 What is country risk analysis? What are the techniques used to assess country Risk? (03 Marks)
- 7 The put option premium on British pounds specifies the following information put option premium on £ = \$ 0.03/unit, strike price: \$ 1.25/unit, purchase price: \$ 1.18/unit. One option contract = 31250\$. What is the net profit to the speculator? (03 Marks)

SECTION - B

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

- 1 Define a MNC. What are its goals? (07 Marks)
- 2 Explain the arbitrage opportunities for a trader. Who wish to borrow Rs 1,00,000/-
 - i) Spot rate 1 \$ = Rs 65, 6M Forward = Rs 67.50
 - ii) Annualized interest rate for rupee = 12%
 - iii) Annualized interest rate for Dollar = 7%(07 Marks)
- 3 What is fixed exchange rate regime? Briefly explain gold standard, Bretton woods system and Smithsonian agreement. (07 Marks)
- 4 In September, MNC used the March spot rate for pound sterling at the following rates (07 Marks)

Rate	Probability
1.2	15%
1.22	20%
1.28	25%
1.3	20%
1.32	20%

If 6-month forward rate is 1.3\$, should the firm sell forward it's receivable due in March?



- 5 What is cross rate? In London, a dealer quotes as following :
Spot GBP/CHF : 1.22/1.26
GBP/JPY : 137.35/137.95
What do you expect CHF/JPY rate to be in Geneva? (07 Marks)
- 6 What is translation exposure? Explain the methods for evaluating translation exposure. (07 Marks)
- 7 Explain the factors which affect international Trade flows (07 Marks)

SECTION - C

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

- 1 Calculate outright from the following and indicate their spreads. (10 Marks)

	Spot	1M	2M	3M	6M
Rs/£	81.5250/5300	40/30	50/30	50/60	70/80
Rs/\$	65.4500/4575	50/75	60/85	80/90	90/70

- 2 Explain the different types of international bonds. (10 Marks)
- 3 Why is BOP statistics important for a country? Prepare BOP statement for India with the help of following information. Also find current account balance, capital account balance and overall balance.
i) India export goods worth Rs 50,000
ii) Oil imports worth Rs 3,00,000 from Gulf countries
iii) Expenditure of foreign tourists in India Rs 15,000
iv) Software exports to USA from India Rs 1,00,000
v) US company invests in India Rs 2,00,000
vi) Indians buy US stocks Rs 50,000
vii) Dividends Received Rs 5000. (10 Marks)
- 4 i) Calculate 3 months forward rate if one \$ is Rs 65 and interest rate in India and US are 6% and 3% respectively.
ii) If the spot rate is Rs 65/\$, inflation rate in India and US are expected to be 5% and 2%. What is the expected spot rate of Rs/\$ after one year? What is the expected rate of depreciation of Indian Rupee? (10 Marks)

- 5 Explain different internal hedging techniques. (10 Marks)

- 6 Explain the methods used to cover interest rate risk. (10 Marks)

- 7 An Indian company is planning to make capital investment of \$ 5,00,000 in US. The spot rate is Rs 65/\$. The project is expected to generate annual after tax cash flows of \$ 1,00,000 for 5 years. At the end of this period, the salvage value of the plant will be \$ 50,000. If the inflation rates in USA and India are as follows, evaluate the project if the cost of capital is 10%. (10 Marks)

Year	US inflation rate	Inflation rate in India
1	2	5
2	2.5	6
3	2.8	6
4	3	6.5
5	3	6



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SECTION - D
CASE STUDY – [Compulsory]

XYZ company has to pay US \$ 10,000 in 1 month, Spot rate is Rs 65/\$, 1M forward rate is Rs 64.50/\$, Interest Rates USA – 6%, India – 8%.

A 30 day call option is having an exercise price of Rs 64.60 and a premium of Rs 0.05 per dollar.

Spot rate on 30th day (1 month) Rs 64.80, Advice XYZ company the course of action to be taken if following options are available.

- i) No Hedge
- ii) Forward Market
- iii) Money Market
- iv) Option corner

Evaluate the loss/gain in each of the above.

(20 Marks)

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