



CBCS SCHEME

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16/17MBAFM404

Fourth Semester MBA Degree Examination, Aug./Sept.2020 International Financial Management

Time: 3 hrs.

Max. Marks:80

**Note: 1. Answer any FOUR full questions from Q.No.1 to Q.No.7.
2. Question No. 8 is compulsory.**

- 1 a. What is MNC? (02 Marks)
b. What is BOP? Explain the components of BOP. (06 Marks)
c. Explain the scope of International Financial Management. (08 Marks)
- 2 a. What is covered interest arbitrage? (02 Marks)
b. Explain the European Monetary System. (06 Marks)
c. Record the following transaction from U.S. perspective:
(i) US firm exports \$50000 worth of goods to be paid in 6 months time
(ii) US government gives US bank balance of \$25000 to the government of Africa as a aid programme.
(iii) US resident Mr.Y visits London and spends \$10,000 on hotel and other expenses.
(iv) Mr.Y while returning back to US finds a purse on street in London carries the same with him and reports to US custom authority the value of currency in purse found to be \$2000.
(v) US resident purchases foreign stock for \$1000 and pays for it through bank balance.
(vi) A foreign investor purchases \$500 worth of treasury bill.
(vii) Mr.Z friend of Mr.Y, who is residing in Singapore sends a watch worth \$1000 as gift to Mr. Y.
(viii) US central bank purchases gold from Africa, worth \$100000 half of which will be paid in 2020. (08 Marks)
- 3 a. You are interested in buying Swedish Krona (SKr). Your banks quotes SKr 7.6040/\$ Bid and SKr 7.6150/\$ Ask. What would you pay in dollars if you bought SKr 1,000,000 at the current spot rate? (02 Marks)
b. Write a short note on IMF. (06 Marks)
c. Explain in detail International Fischer Effect graphically. (08 Marks)
- 4 a. What is Economic Exposure? (02 Marks)
b. Explain the technique to assess country risk. (06 Marks)
c. Ice Ltd. is a Japanese subsidiary of US firm. It has exposed assets of ¥8.5 billion and exposed liabilities of ¥7.5 billion. The spot rate is ¥135/\$.
(i) Calculate Ice Ltd Japan's exposure for the year in \$s.
(ii) The Yen appreciates from ¥135/\$ to ¥105/\$, what will be the translation exposure?
(iii) In the next year, the exposed assets increased by ¥2.5 billion and exposed liabilities increases to ¥9.5 billion and ¥ depreciates from ¥105/\$ to ¥130/\$, calculate the potential loss. (08 Marks)
- 5 a. What is correspondent bank? (02 Marks)
b. Suppose the interbank forward bid for June 18 on £ is \$1.8927 at the same time the price of the £ futures for delivery on June 18 is \$1.8915. How could the dealer use the arbitrage to profit from the situation with a contract size of 62500? (06 Marks)



c. Spot rate is Rs.60/\$, 90 days forward rate is Rs.59.50/\$ Interest rate on borrowing in India and US is 6% p.a. Interest rate on deposit/investment is 5% p.a. 90 days call option with strike price of Rs.59.60 and a premium of Rs.0.05 per dollar, spot rate on the 90th day is Rs.59.80/\$. From the perspective of an importer use the alternatives.

- (i) No hedge
 - (ii) Forward hedge
 - (iii) Money market hedge
 - (iv) Option hedge
- (08 Marks)

6 a. ¥ spot rate is \$1 = 110¥ and interest rate in Tokyo and Newyork are 3 and 4.5% respectively. What is the expected \$ spot exchange rate one year hence? (02 Marks)

b. Empire Ltd balance sheet in thousands of rupees as of 31st March is as follows:

Assets		Amt	Liabilities		Amt
Cash		6000	Accounts payable		3500
Accounts receivable		4500	Short-term bank loan		1500
Inventory		4500	Long term loan		4000
Net plant & equipment		10,000	Capital stock		10000
			Retained earnings		6000
		25000			25000

Rs.35/\$ was the rate, and on 1st April the exchange rate is Rs.42/\$. Calculate the accounting exposure using current rate method. (06 Marks)

c. Company X wishes to barrow US dollars at a fixed rate of interest. Company Y wishes to borrow Japanese Yen at a fixed rate of interest. The amounts required by the two companies are roughly the same at the current exchange rate. The companies are subject to the following interest rates:

	Yen	Dollars
Company X	5.0%	9.6%
Company Y	6.5%	10.0%

Design a swap that will net a bank, 50 basis points per annum. (08 Marks)

7 a. What are currency cocktail bonds? (02 Marks)

b. What are the various international business methods? (06 Marks)

c. (i) Spot rate quotations from two banks in Thailand are received. Find the arbitrage profit assuming you have \$100000.

	M Bank	S Bank
Bid	\$0.0224	\$0.0228
Ask	\$0.0227	\$0.0229

(ii) M bank provides the following quote for US \$ and Japanese yen.

	Bid price	Ask price
Japanese yen in US \$	\$0.0085	\$0.0086
Thai Baht in Japanese Yen	¥2.69	¥2.70

Find triangular arbitrage assuming \$1,00,000. (08 Marks)

8 Your company has to make US \$ 1million payment in 3 months time and the \$ are available now. You decide to invest them for 3 months and you are given with the following information. (i) US deposit rate is 8% p.a. (ii) £ deposit rate is 10% p.a. (iii) Spot exchange rate is \$1.80/£ (iv) 3 month forward rate is \$1.78/£

a. Where should your company invest for better returns? (04 Marks)

b. Assuming that the interest rate and spot exchange rate are same as above. What forward rate would yield an equilibrium? (03 Marks)

c. Assuming that US interest rate and spot and forward rate remains as original where would you invest if the £ deposit rate is 14% p.a. (04 Marks)

d. With the originally stated spot and forward rate and same \$ deposit rate what is the equilibrium £ deposit rate. (05 Marks)