

CBBCS SCHEME



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18MBAFM404

Fourth Semester MBA Degree Examination, July/August 2022 International Financial Management

Time: 3 hrs.

Max. Marks: 100

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

- 1 a. Expand and explain SDR. (03 Marks)
b. Explain the various International business methods. (07 Marks)
c. Explain the concept of disequilibrium in BOP. How can it be restored? (10 Marks)
- 2 a. What does corresponding bank mean? (03 Marks)
b. Write short notes on:
(i) Unilateral transfer payments
(ii) Current account
(iii) Capital account
(iv) Trade balance (07 Marks)
c. Convert the following rates into outright rates and indicate their spread:
- | | Spot | 1 - Month | 3 - Month | 6 - Month |
|-------|------------|-----------|-----------|-----------|
| Rs/\$ | 35.6300/25 | 20/25 | 25/35 | 30/40 |
- (10 Marks)
- 3 a. What is Euro credit? (03 Marks)
b. Explain the importance of BOP. (07 Marks)
c. Briefly explain foreign exchange participants. (10 Marks)
- 4 a. What is international capital budgeting? (03 Marks)
b. In India 1£ = 78/79Rs. In Europe 1£ = 1.2/1.3€. In India what is 1€ = Rs. (07 Marks)
c. Pepsi company would like to hedge its CAN \$ 40 million payable to 'A' limited a Canadian aluminum producer which is due in 90 days suppose it faces the following exchange and interest rates.
Spot rate - \$ 0.7307/12 per CAN\$
Forward rate (90 days) - 0.7320/41 per CAN\$
CAN\$ 90 days Interest rate (annualized) - 4.71% - 4.64%
US\$90 day rates (annualized) - 5.50% - 5.35%
Which heading alternative would you recommend? The first rate is the borrowing rates and second rate is lending rate. (10 Marks)
- 5 a. What is Direct and Indirect quotation? Give example. (03 Marks)
b. What is foreign exchange rate? What are the factors that affect foreign exchange rate? (07 Marks)
c. Explain International Monetary system. (10 Marks)
- 6 a. What is Netting? (03 Marks)
b. Write a short note on "Correspondent Bank". (07 Marks)



- c. The following are three quotes in three FOREX markets:

\$1 = Rs.62.2133 in Mumbai

£1 = Rs.92.1125 in London

£1 = \$1.505 in New York

Are there any arbitrage gains possible? Assume there are no transaction costs and arbitrageur has US \$10,00,000

(10 Marks)

- 7 a. Explain transfer pricing. (03 Marks)
- b. Assume company ABC is a subsidiary of an American Company. The following data reflects the balance sheet of an ABC Ltd.

(in Indian Rupees)

Assets		Liabilities	
Fixed assets	2,00,000	Equity	1,40,000
Stocks	50,000	Long term debt	80,000
Receivables	30,000	Short term debt	70,000
Cash	10,000		
Total	2,90,000		2,90,000

Consider:

(i) Historical rate of interest Rs.35 = US \$1

(ii) Exchange rate at closing day of the accounting year Rs.36 = US \$1

By using monetary/non-monetary method, evaluate the translation (consolidation) exposure. (07 Marks)

- c. Company AKR wishes to borrow US Dollar at a fixed rate of interest, while company RAK wishes to borrow Japanese Yen at fixed rate of interest. The amount required by the two company roughly the same.

Company	Yen	Dollar
AKR	4.0%	8.6%
RAK	5.5%	9.0%

Design a swap by considering bank acting as intermediate with charges of 50 basis points per annum makes the swap equally attracted to the two companies. (10 Marks)

8 Case Study (Compulsory) :

A US MNC is planning to install a manufacturing unit to produce 500000 units of automobile component in India. Setting up of manufacturing plant, it involves 50 million cash outlay. The plant is expected to have useful life of 5 years with Rs.10 million salvage value MNC will follow the SLM method of depreciation. To support running of business working capital of 5 million is invested. Variable cost of production is 20/unit. Fixed cost estimated 2 million, selling price is 70/unit. MNC is subjected to 40% tax in India and rate of return is 15%. It is forecasted that rupee will depreciate @ 3% pa and initial exchange rate Rs.48/\$. Advice the MNC regarding the financial viability of the proposal. (20 Marks)

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