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18MBAFM404

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

Time: 3 hrs.

Max. Marks:100

Note: Answer any FIVE full questions.

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 is SWIFT mechanism? (03 Marks)
 - b. Explain the features of any four International Financial Instruments. (07 Marks)
 - c. Companies A and B has been offered the following rates per annum on a \$20 million five year loan.

	Fixed	Floating
Company A	13%	L + 0.3%
Company B	14.5%	L + 0.5%

Company A requires a floating rate loan. Company B requires fixed rate loan. Design a swap that will net bank acting as intermediary 0.2% pa and will appear equally attractive to both the companies. (10 Marks)

3.
 - a. What is ADR? (03 Marks)
 - b. From the following information, determine the outright rates, spread and the percentage of premium or discount (ask rate).

	Spot	1 Month	6 Month
INR/MYR	16.7725/46	20/30	40/35
INR/NZD	47.5212/18	213/203	175/192

- c. Compare and contrast Foreign currency futures and forward contracts. (10 Marks)

4.
 - a. An exchange rate forecaster expects the dollar to trade at yen 125, one year from now. If the spot rate in yen 121/USD and US interest rate is 4%, what is the interest rate in Japan? (03 Marks)
 - b. Explain the rationale behind purchasing power parity. (07 Marks)
 - c. A foreign exchange dealer has assumed the following information for a particular bank. Is there any covered Interest Arbitrage Possibility (Assuming investor invest \$ 10,00,000 spot rate C\$ = \$ 0.70
90 day forward rate C\$ = \$ 0.69
90 day candidian interest rate = 5%
90 days US interest rate = 3.5% calculate percentage return if investor used covered interest arbitrage. (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)



(03 Marks)

(07 Marks)

- 6 a. What is Netting?
 b. Write a short note on “Correspondent Bank”.
 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 arbitrage has US \$ 10,00,000 (10 Marks)

- 7 a. What is Balance of Trade? (03 Marks)

- b. Set out below in table of cross rates.

	Deutch Mark	Dollar	French Franc	Pound Sterling
Frank Furth	-	2.2812	0.4712	4.0218
New York	0.4421	-	0.2110	1.8000
Paris	2.0949	4.7393	-	8.4301
London	4.0207	1.7775	8.4232	-

For Fran Furth, New York and Paris all quotes are direct. For London, all quotes are indirect. Assuming no transaction costs, how might a trader take advantage of the situation? (07 Marks)

- c. Farm product is a Candian affiliate of an US manufacturing company. Its balance sheet in thousands of Candian dollars for Jan 1, 2004 is shown below.

The January 1, 2001 exchange rate was C \$ 1.6/ \$

Liabilities	Amount C \$	Assets	Amount C \$
Capital	6,20,000	Net plant and Equipment	2,00,000
Long term debt	1,60,000	Inventory	3,20,000
Current liabilities	60,000	Receivables	2,20,000
		Cash	1,00,000
	8,40,000		8,40,000

- i) Determine Farm products accounting exposure on Jan 1, 2004 using current rate method.
 ii) Calculate farm products contribution to its parent accounting loss if the exchange rate on Dec 31, 2004 was C \$ 1.8 per \$. Assume all accounts remain as they were at the beginning of the year. (10 Marks)

- 8 A US MNC is planning to set up a subsidiary in India (where hiterto it was exporting) in view of the rising demand for its products and competition from others. The initial cost of the project is estimated to be \$400 million. Working capital requirement is estimated to be \$50 million. It follows straight line depreciation.

At present it is exporting 2 million units every year at a unit price of \$80. Variable cost per unit is \$40. The finance manager of the firm has following estimates for the project.

- i) Variable cost of production → \$20/unit
 ii) Additional fixed cost/annum → \$30 million
 iii) Capacity of plant in India to produce and sell → 4 million units
 iv) Life of the plant with no salvage value → 5 years
 v) Firm’s existing working capital investment in the production and sale of 2 million units → \$10 million.

The manager mention that the exports will fall to 1.5 million units in case the firm does not setup subsidiary in India. Tax rate is 35% required rate of return is 12%. Assume no change in exchange rate and no with holding tax. Advice the MNC. (20 Marks)

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