USN | | | | | | | | | | |

18MBAFM404

Fourth Semester MBA Degree Examination, Feb./Mar. 2022
International Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any FOUR full questions from Q1 to Q7.***
2. Question No.8 is compulsory.

1 a. What is direct and indirect quote? **(03 Marks)**
b. What are the various methods of International Business? **(07 Marks)**
c. Write a note on IMF mentioning its facilities. **(10 Marks)**

2 a. What is translation and transaction exposure? **(03 Marks)**
b. Explain the difference between forward and future contract. **(07 Marks)**
c. Record the transactions and prepare the balance of payments statements:
(i) An Indian firm exports Rs. 50000/- worth of goods to be paid in 6 months.
(ii) Indian resident visits UK and spends Rs.5000/- on her travel.
(iii) While returning back from UK, the Indian traveler finds a wallet worth Rs.1000/- in pound sterling and surrenders the same to custom authority.
(iv) Indian Government gives bank balance of Rs.20000/- to African country as a national aid programme.
(v) An Indian resident purchases foreign stock for Rs.8000/- and pays for it by increasing the foreign bank balance.
(vi) A foreign investor purchases Rs.6000/- of Indian treasury bills.
(vii) Indian bank lends Rs.30000/- to Canadian firm. **(10 Marks)**

3 a. What is Covered Interest Arbitrage (CIA)? **(03 Marks)**
b. What is Foreign Exchange Market? What are the functions of Foreign Exchange market? **(07 Marks)**
c. The Triumph company Ltd., has to make a payment of US $ 1 million in 3 months time. The dollars are available now. You can decide to invest them for 3 months.
US $ deposit rate 9% p.a.
UK £ deposit rate 10% p.a.
Preset spot rate is $1.90/ £ and 3 month forward rate is $1.88/ £ .
(i) Where should the company invest for better returns?
(ii) Assuming that the interest rate and the spot exchange rate remain as same what forward rate would yield an equilibrium situation?
(iii) If the sterling deposit rate was 12% p.a. and all other rates remain as mentioned above, where should the company invest? **(10 Marks)**

4 a. What is correspondent banking and Representative office? **(03 Marks)**
b. An Indian exporting firm R&R would like to cover itself against a likely depreciation of pound sterling.
Receivables of R & R is £ 5,00,000.
Spot rate : Rs.56.00/ £ , payment data is 3 months.
The 3 month interest rate in India is 12/- p.a. and UK is 5% p.a.
What should the exporter do? **(07 Marks)**

c.

	DM	$	FF	£
Frankfurt	-	2.2800	0.4810	4.0205
Newyork	0.4400	-	0.2100	2.800
Paris	2.0900	4.8300	-	8.3400
London	4.0100	1.8700	7.4200	-

Fankfort, Newyork and Paris quotes are direct, for London the quotes are indirect. If all quotes are available at same instant and no transaction cost, how a trader can take advantage of the situation? Explain your answer assuming 100 units of currency. **(10 Marks)**

5 a. Brazilian Riyal R0.9955 – 1.0076 /US$
Thai Baht B25.2513 – 3986/US$
Find the direct quote value of R in Bangkok B/R. **(03 Marks)**

b. Lee USA's Japanese subsidiary Lee Japan has exposed assets of ¥ 8.5 billion and exposed liabilities of ¥ 7.5 billion. During the year yen appreciated from ¥ 135/$ to ¥ 105/$.

(i) Calculate Lee Japan's net translation exposure at the beginning of the year in Yen and in dollar.

(ii) Calculate Lee Japan's translation gain or loss from the change in the yens value.

(iii) Suppose for the next year exposed assets of Lee Japan increase by ¥ 2.5 billion while exposed liabilities increases by ¥ 2 billion. During the year the ¥ depreciates from ¥ 105/$ to ¥ 130/$. What is Lee Japan's translation gain or loss for this year.

(07 Marks)

c. A US based firm requires £ 100000 in 180 days had four options before it:

(i) Forward hedge
(ii) Money market hedge
(iii) Option hedge
(iv) No hedge.

Current spot rate of pound $1.50
180 day forward rate of pounds as of today $1.48 interest rates were as follows:

Particulars	UK	US
180 days deposit rate	4.5%	4.5%
180 days borrowing rate	5.1%	5.1%

A call option on pound that expires in 180 days has an exercise price of $1.49 and a premium of $0.03.
The future spot rate in 180 days were forecasted

Possible outcome	Probability
$ 1.44	20%
$ 1.46	60%
$ 1.53	20%

(10 Marks)

6 a. Calculate forward rates: **(03 Marks)**

Spot	USD/INR	65.0265-315
1 month	Forward	485 – 535
2 month	Forward	985 – 1060

b. What is balance of payment? What are the components of balance of payment? **(07 Marks)**

c. XYZ Ltd. is considering a project in Luxembourg, which will involve an initial investment of €1,30,00,000. The project will have 5 years of life. The current spot exchange rate is Rs.68 per Euro. The risk free rate in Germany is 8% and the same in India is 12%.

Year	Cash flow
1	€ 30,00,000
2	€ 25,00,000
3	€ 35,00,000
4	€ 40,00,000
5	€ 60,00,000

Calculate NPV of the project using foreign currency approach expressed in Rupees. The required rate on this project is 14%. **(10 Marks)**

7 a. What are Euro bonds? **(03 Marks)**

b. One month : USD / INR 40.1275 – 40.1375
USD / CHF 1.3590 – 1.3610
Three month : USD / INR 40.2500 – 40.2600
USD / CHF 1.3535 – 1.3555
Find CHF/INR one month and 3 month. **(07 Marks)**

c. Design a swap that will net a bank acting as intermediary with 50 basis. Company X wishes to borrow US $. Company Y wishes to borrow ¥.

	¥	$
X	5.1	9.6
Y	6.5	10%

(10 Marks)

8 a. Spark corporation presently has no existing business in France, but it is considering establishment of subsidiary there. Initial investment is $ 12 million, the working capital is FF10 million will be borrowed by a subsidiary from French bank. Existing spot rate is $0.20. Interest on loan is 10%. The project will be terminated at the end of 3 years. When the subsidiary will be sold. The price and demand are as follows:

Year	Price (FF)	Demand (units)	Variable cost in FF
1	600	40000	25
2	650	50000	30
3	700	60000	40

Fixed cost are FF 5 million. The exchange rate is expected to be $0.22 at the end of year 1, $0.25 at the end of year 2 and $0.28 at the end of year 3.
The French Government will impose withholding tax of 10%. The depreciation is FF 6 million depreciated over 10 years. The required rate of return is 15%. Determine the NPV for project. Should the project be accepted? **(15 Marks)**

b. Mention the current scope of International Financial Management. **(05 Marks)**

* * * * *