CBCS SCHEME

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

18MBAFM404

Fourth Semester MBA Degree Examination, July/August 2021
International Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FIVE full questions.***

1 a. Explain direct and indirect quotes. **(03 Marks)**
b. Compare spot rates and forward rates. **(07 Marks)**
c. Explain various international business methods. **(10 Marks)**

2 a. What are swaps? **(03 Marks)**
b. Discuss the role of IMF. **(07 Marks)**
c. Explain disequilibrium in balance of payments. How can it be restored? **(10 Marks)**

3 a. Explain SWIFT mechanism. **(03 Marks)**
b. From the following rates, determine
INR/CAD exchange rate
INR/USD = 73.44/73.62
CAD/USD = 1.32/1.35 **(07 Marks)**
c. Examine country risk analysis. **(10 Marks)**

4 a. What is a zero-coupon bond? **(03 Marks)**
b. Explain translation exposure and its types. **(07 Marks)**
c. Explain interest rate parity theory. **(10 Marks)**

5 a. State the relative form of PPP theory. **(03 Marks)**
b. Examine the factors that influence exchange rate. **(07 Marks)**
c. Calculate arbitrage gain from the following:
Spot rate: Rs.77.88/$
3 month forward rate = Rs.78.28/$
3 month interest rates
Rs. = 7% p.a
$ = 11% p.a **(10 Marks)**

6 a. A Srilankan company is planning to invest in the USA. The rates of inflation are 8% in Srilanka and 3% in USA. If the spot rate is SLR 84/USD. What spot rate do you expect after 5 years? **(03 Marks)**
b. Discuss the types of international banking offices. **(07 Marks)**
c. Analyse the techniques used by firms to hedge transaction exposure. **(10 Marks)**

7 a. Compare Foreign bonds and Eurobonds. **(03 Marks)**
b. Compare the capital budgeting analysis of an MNCs subsidiary versus its parent. **(07 Marks)**
c. Write a note on the following:
i) Centralized cash management
ii) Cross listing of shares
iii) Bretton woods system
iv) Triangular arbitrage. **(10 Marks)**

CASE STUDY

8 A US MNC is planning to install a manufacturing unit to produce 5,00,000 units of an electronic component in India. Settling up of the manufacturing plant will involve an investment outlay of Rs.80 million. The plant is expected to have a useful life of 5 years with Rs.10 million salvage value. MNC will follow the straight line method of depreciation. To support the running of business, working capital of Rs.5 million, will have to be invested, variable cost will be Rs.40 per unit. Additional fixed cost are estimated at Rs.2 million per annum. The forecasted selling price is Rs.140% per unit. The MNC will be subjected to 40% tax rate in India and its required rate of return is 15%.

It is forecasted that the rupee will depreciate in relation to USD @ 3% p.a, with an initial exchange rate of Rs.73/$. Accordingly the exchange rates for the relevant 5 year period of the project will be as follows.

Year	Exchange rate
0	Rs.73/$
1	Rs.75.20/$
2	Rs.77.45/$
3	Rs.79.77/$
4	Rs.82.16/$
5	Rs.84.62/$

Advice the MNC regarding financial viability of the proposal. **(20 Marks)**

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