USN | | | | | | | | | | 16/17MBAFM404

Fourth Semester MBA Degree Examination, Dec.2018/Jan.2019
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.*
       3. *Use of present value tables is permitted.*

1 a. Define BOP. **(02 Marks)**
    b. Explain in detail European Monetary system. **(06 Marks)**
    c. Discuss the factors affecting the flow of FDI and FPI into a country. **(08 Marks)**

2 a. What is clean and dirty float? **(02 Marks)**
    b. What are various International Business Methods? **(06 Marks)**
    c. Prepare Balance of payment statement for USA from the following data :
       i) A US firm Exports 1000$ worth of Goods to be paid in 6 months.
       ii) A US resident visits London and spends 400$ on hotel, meals and so on.
       iii) US Govt gives a US Bank balance of 200$ to the government of a developing nation as part of the US aid programme.
       iv) A US resident purchases foreign stock for 800$ and pays for it by increasing the foreign bank balance in the US.
       v) A foreign Investor purchases 600$ of US T-bills and pays by drawing down his bank balance in the USA by an equal amount. **(08 Marks)**

3 a. What do you mean by Intervention in the foreign Exchange market? **(02 Marks)**
    b. How is international financial management different from domestic financial management? **(06 Marks)**
    c. Determine arbitrage gain for the following data :
    Spot rate   : Rs 78.10/£
    3 month forward Rate : 78.60/£
    3 Month Interest rates :   Rupees   :   9%
                            British £   :   5%
    Assume Rs 10 million borrowings or £ 2,00,000 (as the case may be) to explain your answer. **(08 Marks)**

4 a. Distinguish between depreciation and devaluation. **(02 Marks)**
    b. An importer is to make payment of 1million Thai Baht to its partner in Bangkok. The currency quotes available are :
    For dollar is India   : Rs 60.0843/60.0996
    For dollar is Thailand : Thai Baht   : 54.9400/54.9600
    What is the amount of bill payable in terms of Indian rupees? **(06 Marks)**

c. A foreign exchange trader gives the following quotes for the Belgian franc spot, one month, three months and six month to a US based treasure.

$ 0.02368/70, 4/5, 8/7, 14/12

    i) Calculate the outright quotes for one three and six months forwards.

    ii) If the treasurer wished to buy Belgian francs three months forward, how much would he pay in dollars?

    iii) If he wished to purchase US dollars one month forward, how much would he have to pay in Belgian francs?

    iv) Assuming that Belgian francs are being bought, what is the premium or discount ; for one, three and six months forward rates in annual percentage terms?

    v) What do the above quotations imply in respect of the term structure of interest in the USA and Belgian? **(08 Marks)**

5 a. Give three differences between forward and future contract. **(02 Marks)**

  b. Explain the propositions of IRP theory. **(06 Marks)**

  c. Kennedy Inc is a US based MNC that conducts a part of its business in Malaysia. Its US sales are denominated in US dollars while its Malaysia sales use denominated in Malaysia dollars. Its pro-forma income statement for the next year is shown below. Show how the costs revenue and earnings would be affected by 3 possible exchange rate scenarios for the Malaysian dollar.

i) $3.50   ii) $3.60   iii) $3.70

Assume that US sales will be unaffected by the exchange rate and also a assume that Malaysian dollar earnings will be remitted to the US at the end of the period.

Revenue and cost estimates : (Kennedy Inc in millions of US $ and Malaysian dollars)

Particulars	US Business	Malaysia Business
Sales	$ 350	M $ 250
Cost of Goods sold	1,850	60
Gross Profit	1,650	190
Operating expanses	650	100
EBIT	$ 1,000	M $ 90
Interest Expenses	800	70
EBT	$ 200	M $ 20

(08 Marks)

6 a. What is capital account convertibility? **(02 Marks)**

  b. Who are the participants in Foreign exchange market? **(06 Marks)**

  c. An Indian Importer has to settle a bill for $ 1,35,000. The Exporter has given the Indian company two options :

    i) Pay immediately without any interests charge

    ii) Pay after 3 months, with interest @ 6% P.a

The importers Bank charges 16% P.a on overdrafts.

If the exchange rates are as follows, what should the company do?

Spot (Rs /$) 65.35/65.36

3 months (Rs/$) 65.81/65.83

Give reasons for your advice. **(08 Marks)**

7 a. What do you mean by a currency swap? **(02 Marks)**
   b. Explain the different types of International Bonds. **(06 Marks)**
   c. A French importer has bought an equipment from a US firm US $ 1 million on 1st March in the current year to be paid for in 3 months. He fears an appreciations of the US $ and then decides to cover himself in the option Market. The data are :
   Exchange rate : FF$_V$ 5.00/US$
   He is considering call option and its characteristics are :
   Strike price : FF$_V$ 5.05/US$, Maturity date : 1st June premium 3%. **(08 Marks)**

8 **Compulsory : Case Study**

   a. Companies A and B has been offered the following rates p.a 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 intermediacy 0.2% p.a and will appear equally attractive to both companies. **(08 Marks)**

   How do you measure currency exposure? Find the currency exposure Co – efficient Beta for the following data :

State	Probability	Q′	S	Q
1	1/3	£ 980	$ 1.4	$ 1,372
2	1/3	£1,000	$ 1.5	$ 1.500
3	1/3	£ 1,070	$ 1.6	$ 1,712

   b. Where Q′ pound price of the asset ; S = Exchange rate in $; Q = P′ **(08 Marks)**

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