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Fourth Semester MBA Degree Examination, June/July 2017
International Financial Management

Time: 3 hrs.

Max. Marks:100

SECTION - A*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 What is full capital Account convertibility? (03 Marks)
- 2 If USD/INR: 65/65.50, GBP/USD : 1.25/1.27, what is GBP/INR rate? (03 Marks)
- 3 What is licensing? What are its advantages? (03 Marks)
- 4 Explain cross listing of shares. (03 Marks)
- 5 Country A has to pay 5 million \$ to country B and country B has to pay 12.5 million \$ to country C. country C has to pay 3 million dollar to country A. use the process of netting for the above. (03 Marks)
- 6 What is country risk analysis? What are the techniques used to assess country Risk? (03 Marks)
- 7 The put option premium on British pounds specifies the following information put option premium on £ = \$ 0.03/unit, strike price: \$ 1.25/unit, purchase price: \$ 1.18/unit. One option contract = 31250\$. What is the net profit to the speculator? (03 Marks)

SECTION - B*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Define a MNC. What are its goals? (07 Marks)
- 2 Explain the arbitrage opportunities for a trader. Who wish to borrow Rs 1,00,000/-
 - i) Spot rate 1 \$ = Rs 65, 6M Forward = Rs 67.50
 - ii) Annualized interest rate for rupee = 12%
 - iii) Annualized interest rate for Dollar = 7%
 (07 Marks)
- 3 What is fixed exchange rate regime? Briefly explain gold standard, Bretton woods system and Smithsonian agreement. (07 Marks)
- 4 In September, MNC used the March spot rate for pound sterling at the following rates (07 Marks)

Rate	Probability
1.2	15%
1.22	20%
1.28	25%
1.3	20%
1.32	20%

If 6-month forward rate is 1.3\$, should the firm sell forward it's receivable due in March?

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
 2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

- 5 What is cross rate? In London, a dealer quotes as following :
 Spot GBP/CHF : 1.22/1.26
 GBP/JPY : 137.35/137.95
 What do you expect CHF/JPY rate to be in Geneva? (07 Marks)
- 6 What is translation exposure? Explain the methods for evaluating translation exposure. (07 Marks)
- 7 Explain the factors which affect international Trade flows (07 Marks)

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 Calculate outright from the following and indicate their spreads. (10 Marks)
- | | Spot | 1M | 2M | 3M | 6M |
|-------|--------------|-------|-------|-------|-------|
| Rs/£ | 81.5250/5300 | 40/30 | 50/30 | 50/60 | 70/80 |
| Rs/\$ | 65.4500/4575 | 50/75 | 60/85 | 80/90 | 90/70 |
- 2 Explain the different types of international bonds. (10 Marks)
- 3 Why is BOP statistics important for a country? Prepare BOP statement for India with the help of following information. Also find current account balance, capital account balance and overall balance.
- i) India export goods worth Rs 50,000
 - ii) Oil imports worth Rs 3,00,000 from Gulf countries
 - iii) Expenditure of foreign tourists in India Rs 15,000
 - iv) Software exports to USA from India Rs 1,00,000
 - v) US company invests in India Rs 2,00,000
 - vi) Indians buy US stocks Rs 50,000
 - vii) Dividends Received Rs 5000.
- (10 Marks)
- 4 i) Calculate 3 months forward rate if one \$ is Rs 65 and interest rate in India and US are 6% and 3% respectively.
 ii) If the spot rate is Rs 65/\$, inflation rate in India and US are expected to be 5% and 2%. What is the expected spot rate of Rs/\$ after one year? What is the expected rate of depreciation of Indian Rupee? (10 Marks)
- 5 Explain different internal hedging techniques. (10 Marks)
- 6 Explain the methods used to cover interest rate risk. (10 Marks)
- 7 An Indian company is planning to make capital investment of \$ 5,00,000 in US. The spot rate is Rs 65/\$. The project is expected to generate annual after tax cash flows of \$ 1,00,000 for 5 years. At the end of this period, the salvage value of the plant will be \$ 50,000. If the inflation rates in USA and India are as follows, evaluate the project if the cost of capital is 10%. (10 Marks)

Year	US inflation rate	Inflation rate in India
1	2	5
2	2.5	6
3	2.8	6
4	3	6.5
5	3	6

SECTION - D
CASE STUDY – [Compulsory]

XYZ company has to pay US \$ 10,000 in 1 month, Spot rate is Rs 65/\$, 1M forward rate is Rs 64.50/\$, Interest Rates USA – 6%, India – 8%.

A 30 day call option is having an exercise price of Rs 64.60 and a premium of Rs 0.05 per dollar.

Spot rate on 30th day (1 month) Rs 64.80, Advice XYZ company the course of action to be taken if following options are available.

- i) No Hedge
- ii) Forward Market
- iii) Money Market
- iv) Option corner

Evaluate the loss/gain in each of the above.

(20 Marks)

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