USN | | | | | | | | | | **12MBAFM426/BI436**

Fourth Semester MBA Degree Examination, Dec.2015/Jan.2016
International Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***1. Answer any THREE full questions from Q.No.1 to 6.***
2. Q.No. 7 & 8 are compulsory.
3. Use of Time value tables is permitted.

1 a. Mention any three objectives of IMF. **(03 Marks)**

b. An MNC has accounts receivable of @1.8 billion and accounts payable of $940 million. It has also borrowed $700 million. The spot exchange rate is $1.8138 | £.
   (i) What is the MNC's dollar transaction exposure in Dollar terms? In pound terms?
   (ii) If the pound appreciates to $2.1122 | £, what is MNC's gain or loss in pound terms on its dollar transaction exposure? **(07 Marks)**

c. From the following information, identify & show the possibility of arbitrage and quantum of gain, when the currency borrowed is 1,00,000 units.
   Spot exchange rate : Rs. 92.66/£. 6 month forward rate : Rs. 94.20/£.
   Interest rate prevailing in India: 12% p.a. Interest rate prevailing in London: 5% p.a. **(10 Marks)**

2 a. What is SWIFT? **(03 Marks)**

b. Write a short note on ADR, GDR & Eurobonds. **(07 Marks)**

c. You are required to find out the overall BOP clearly indicating all the sub-balances from the following data:
   i. A German company invests Rs.300000 in India to modernize its Indian subsidiary.
   ii. A tourist from Europe buys articles worth Rs.3000/- to carry with him. He also pays hotel and travel bills of Rs.5000/- to a tourist agency based in Delhi.
   iii. The Indian subsidiary of German company remits Rs.5000 as dividend to its parent company in Germany.
   iv. The German Co., sells a part of its production produced in India in other countries for Rs. 1,00,000/-
   v. Indian subsidiary borrows a sum of Rs. 2,00,000 (to be paid back in a year's time) from the American money market to resolve its urgent liquidity problem.
   vi. An Indian company buys a machine for Rs.100000 from UK and 60% payment is made immediately; the remaining amount is to be paid after 3 years.
   vii. An Indian subsidiary of a German company borrows Rs. 50,000/- from Indian public to invest in its modernization programme. **(10 Marks)**

3 a. Given Rs. 67.26 | €, Rs.62.26 | $. What is the $ | € cross rate? **(03 Marks)**

b. How is transaction exposure different from economic exposure? **(07 Marks)**

c. What are the different modes of international business? Explain them in brief. **(10 Marks)**

4 a. Differentiate between Real and effective exchange rates. **(03 Marks)**

b. Write a brief note on corresponding bank & foreign branches. **(07 Marks)**

c. Write a detailed note on European monetary system. **(10 Marks)**

5 a. What are the measures/ methods of risk evaluation in capital budgeting? **(03 Marks)**

b. A foreign exchange dealer has assumed the following information for a particular currency. The quoted price CAD1 = Euro 0.7400, CAD1 = $ 0.8000 and USD1 = Euro 0.9200. On the basis above information, is triangular arbitrage possible? If yes, calculate the profit by considering USD 1,00,000. **(07 Marks)**

c. Company P&Q have been offered the following rates per annum on a USD 10 million 5 years loan.

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.

c.

Company	Fixed Rate	Floating Rate
P	8%	LIBOR + 0.4%
Q	10%	LIBOR + 1.6%

Company P requires a floating rate loan, whereas Q requires a fixed rate loan. Design a SWAP that will net a bank acting as intermediary 0.2% per annum, that will appear equally attractive to both parties. **(10 Marks)**

6 a. Write any three purposes of setting up IMF under Bretton-Woods system. **(03 Marks)**

b. Critically examine the theory of purchasing power parity and international fisher effect. **(07 Marks)**

c. You are the CFO of a UK company. You are evaluating a project to be setup in USA. Cash flows data and other information is given below. The $ | £. Spot rate is 1.5850. The £ is expected to appreciate by 6% p.a. every year. A UK based project under the same risk class would be expected to earn a minimum return of 10%. Assess whether the project can be undertaken?

Year	0	1	2	3
Cash flows in USD	- 20	+ 10	+ 16	+ 4

Note: All cash flows are in millions. **(10 Marks)**

7 a. The CFO of DU Ltd is going to receive USD 3,00,000 in a period of 3 months from now. He assumes that Indian forex market has become more or less efficient. He is confused as to how the exchange rate is going to move in the near future i.e., 3 months, though he knows the current exchange rate. He has approached you for a suggestion on the same. Assuming that the date of all kinds is freely available, how do you determine the expected spot rate after 3 months? **(05 Marks)**

b. You have called your foreign exchange trader and asked for a quotation on the spot, one month, three month and six month periods. The trader has responded with the following: $ 0.2479 – 81 , 3/5 , 8/7 and 13/10 per €. What does this mean in terms of $ | €? What is the premium or discount for six month forward rate in annualized percentage when you are buying €? **(05 Marks)**

c. An Indian exporting firm K&K has receivables of USD 5 million after 3 months. It is estimated that the interest rates in India and in US will be 12% p.a. and 6% p.a. respectively. Knowingly very well that the spot exchange rate is Re.1 = $ 0.0161 and the exchange rate is likely to depreciate in terms of USD, how will K&K overcome this situation. **(10 Marks)**

8 DC corporation is a US based software consultant specialized in financial software for several fortune 500 companies. It has offices in India, UK, Europe and Australia. In 2014 DC corporation required £ 1,00,000 in 180 days and has 4 options before it. (i) Forward market hedge (ii) Money market hedge (iii) Option hedge (iv) No hedge. The company's analyst has developed the following information which was used to assess the alternatives available.

The spot rate of £ is $1.50 and 180 day forward rate is $1.48. Interest rates in the countries were as follows:

Particulars	UK	US
180 day deposit rate	4.5% p.a.	4.5% p.a.
180 day borrowing rate	5.1% p.a.	5.1% p.a.

The company has the following additional information available to it. A call option on £ that expires in 180 days has an exercise price of $1.49 has a premium of $0.03.

The future spot rate in 180 days is expected to be as given below:

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

An analysis of hedging techniques have to be made to advice D.C. corporation. Also required to advice the best alternative to D.C. corporation. **(20 Marks)**

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