

# CBCS SCHEME

16/17MBAFM404

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## Fourth Semester MBA Degree Examination, Jan./Feb. 2021 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.**

- 1 a. Give the meaning of 'exposure netting'. (02 Marks)  
b. Define MNC. Explain the goals of an MNC. (06 Marks)  
c. Explain the types of exchange rates. (08 Marks)
- 2 a. What is meant by Fisher effect? (02 Marks)  
b. The US \$ is selling in India at Rs.70.50. If the interest rate for a 6 month borrowing in India is 8% p.a. and the corresponding rate in USA is 2% p.a.  
(i) Do you expect US \$ to be at a premium or at discount in the Indian forward market?  
(ii) What is the expected 6 months forward rate for US \$ in India?  
(iii) What is the rate of forward premium or discount? (06 Marks)  
c. You are required to find out the overall balance, showing clearly all the sub balances from the data:  
(i) UC Corporation of USA invests in India Rs.3,00,000 to modernize its India subsidiary.  
(ii) A tourist from Egypt buys souvenirs worth Rs.3000 to carry with him. He also pays hotel and travel bills of Rs.5000 to Delhi tourist agency.  
(iii) The Indian subsidiary of UC Corp. remits, as usual, Rs.5000 as dividends to its parent company in the USA.  
(iv) The Indian subsidiary of UC Corp. sells a part of its production in other Asian countries for Rs.1,00,000.  
(v) The Indian subsidiary borrows a sum of Rs.2,00,000 (to be paid back in a year's time) from the German money market to resolve its urgent liquidity problem.  
(vi) An Indian company buys a machine for Rs.1,00,000 from Japan and 60% payment is made immediately. The remaining amount is to be paid after 3 years.  
(vii) An Indian subsidiary of a French company borrows Rs.50,000 from the Indian public to invest in its modernization program. (08 Marks)
- 3 a. Rates of the Rupee and € (Euro) in the international market are US \$0.0142 and US \$1.1226 respectively. What direct quote of US \$ and € will be provided by a Forex dealer in India? (02 Marks)  
b. Explain the different factors affecting exchange rates. (06 Marks)  
c. You have called your forex trader and asked for quotations on the spot, one month, three month and six month. The trader has responded with the following:  
\$0.2479/81 3/5 8/7 13/10  
(i) What does this mean in terms of \$'s per € (Euro)?  
(ii) If you wished to buy spot Euros, how much you would pay in \$'s (Dollars)?  
(iii) If you wanted to purchase spot US \$, how much you have to pay in €'s (Euros)?  
(iv) What is the premium or discount in the one, three and six month forward rates in annual percentages? [Assume you are buying € (Euros)] (08 Marks)

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.

- 4 a. What is SWIFT mechanism? (02 Marks)
- b. A company will need to buy after 4 months a Forward Rate Agreement [FRA] from a bank to borrow for 3 months. The 4/7 FRA is quoted at 6.5. What will the company do if after 4 months, the rate:
- Rises to 7%
  - Falls to 6%
  - Remains at 6.5%. (06 Marks)
- c. The spot exchange rate is \$1.50/£; 3 month forward exchange rate is \$1.53/£; interest rates for 3 months in US and UK is 8% p.a. and 6% p.a. respectively. Assume that you can borrow \$2 million or equivalent amount in £.
- Determine whether IRP holds?
  - If IRP is not holding, how you would carry out covered interest arbitrage transaction?
  - Determine arbitrage profit. (08 Marks)
- 5 a. Distinguish between leading and lagging technique. (02 Marks)
- b. An Indian importer has bought goods from Switzerland for SFr 10,00,000. The exporter has given the Indian company 2 options:
- Pay the bill for SFr 10,00,000 immediately.
  - Pay with an interest @ 5% p.a. after 3 months.
- The importer bank charges 14% on overdraft. If the exchange rates were as follows:  
 Spot rate (Rs./SFr) = 30.00/30.50  
 Forward rate for 3 months (Rs./SFr) = 31.10/31.60  
 What should the importer do? (06 Marks)
- c. Total translation exposure of a company is Rs.1.5 million. This exposure is in French francs. Interest rates are 8 and 11% for the franc and the rupee respectively. How is hedging to be done? Spot rate is Rs.6 per FFr. The rupee is likely to depreciate by 6%. (08 Marks)
- 6 a. If the \$ : Yen spot rate is \$1 = Yen 110 and interest rates in Tokyo and New York are 3 and 4.5 percent respectively. What is the expected dollar Yen exchange rate one year hence? (02 Marks)
- b. Explain the different international financial instruments. (06 Marks)
- c. Your company has to make US \$1 million payment in three months time. The dollars are available now. You decides to invest then for 3 months and you are given with following information:
- The US deposit rate is 8% p.a.
  - The Sterling deposit rate is 10% p.a.
  - The spot exchange rate is \$1.80/£
  - The three month forward rate is \$1.78/£
- Where should your company invests for better returns?
  - Assuming that the interest rates and the spot exchange rate remain as above, what forward rate would yield an equilibrium situation?
  - Assuming that the US interest rate and the spot and forward rates remain as in the original question, where would you invest if the sterling deposit rate were 14% p.a.?
  - With the originally stated spot and forward rates and the same dollar deposit rate, what is the equilibrium sterling deposit rate? (08 Marks)

- 7 a. What is meant by country risk analysis? (02 Marks)  
 b. Explain the various modes of entry into international business. (06 Marks)  
 c. Two companies have the following borrowing rates applicable to them:

Company	Fixed Rate	Floating Rate
X	T	L + 0.2
Y	T + 1.5	L + 0.75

The company X' wants to borrow at variable rate while the company Y' at fixed rate. However, through a bank as intermediary, the two companies reverse their choices.

The bank signs two swap contracts stipulating that company X' will pay to bank (L + 0.25) while company Y' will pay to it [T + 0.70]. The bank wants to have 0.30 percent profit. What are the costs of debt to the two companies, if the bank's profit is contributed equally by two? (08 Marks)

8 CASE STUDY (compulsory)

XYZ Ltd., a US firm will need £3,00,000 in 180 days. In this connection the following information is available:

Spot rate £1 = \$2.00

180 days forward rate £1 = \$1.96

Interest rates are as follows:

Particulars	UK	US
180 days deposit rate	4.5%	5%
180 days borrowing rate	5%	5.5%

A call option on £, that expires in 180 days has an exercise price of \$1.97 and a premium of \$0.04.

XYZ Ltd., has forecasted the spot rates of 180 days hence as below:

Future rate (\$)	1.91	1.95	2.05
Probability	25%	60%	15%

Which of the following strategies would be most preferable to XYZ Ltd?

- (i) A forward contract  
 (ii) A money market hedge  
 (iii) An option contract  
 (iv) No hedging

(16 Marks)

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