CBCS SCHEME

USN

22MBAFM403

Fourth Semester MBA Degree Examination, Dec.2024/Jan.2025
Global Financial Management

Time: 3 hrs. Max. Marks: 100

Note: 1. *Answer any FOUR full questions from Q.No.1 to Q.No.7.*
2. *Question No. 8 is compulsory.*
3. *M : Marks , L: Bloom's level , C: Course outcomes.*
4. *Use of present value table may be permitted*

			M	L	C
Q.1	a.	Explain SWIFT mechanism.	03	L2	CO2
	b.	Compare and contrast Foreign currency futures and forward contracts.	07	L2	CO3
	c.	A US based plastic manufacture is considering a proposal to produce high quality plastic glasses in India. The necessary equipment to manufacture the glasses will cost Rs.1,00,000 in India and it would last for 5 years. The tax relevant rate of depreciation is 25% on written down value. Salvage value is Rs.10,000. The glasses would be sold at Rs.4/unit, fixed cost of Rs.25,000 per year and variable cost of Rs.2/unit. The manufacture estimates to sell 75,000 glasses/year. Tax rate is 35%. Minimum required rate of return for US manufacture is 20%. Additional working capital required is Rs.50,000. The US manufacture will be allowed 100% repatriation each year with a withholding tax of 10%. Should the proposal be accepted? Spot rate is Rs.60/$. S_0 | 1 | 2 | 3 | 4 | 5 Rs/$ | 60 | 60 | 62 | 62 | 62	10	L4	CO4
Q.2	a.	It is given that dollar 6 month T bill in 7% risk free 6 months Japanese bond is 6.5%. Spot exchange rate is 1 Yen = $0.008. What is the 6 month forward exchange rate?	03	L2	CO2
	b.	Money and foreign exchange market in London and New York are very efficient. You have the following information: Particulars | London | New York Spot Exchange Rate | $1.600/£ \| £ 0.6250/$ One year treasury bill rate | 5.00% | 6.00% Expected inflation rate | 2.00% | ? Assuming parity conditions hold, estimate inflation in the US next year. Also estimate today's 1 year forward exchange rate.	07	L4	CO2
	c.	Explain International Monetary System.	10	L3	CO1
Q.3	a.	Expand and explain SDR.	03	L2	CO1
	b.	Explain the concept of disequilibrium in BOP. How can it be restored?	07	L3	CO1

			Marks	Level	CO
	c.	Indus Ltd, is the wholly owned Indian subsidiary of US based company Gofts Ltd. non consolidated balance sheet of both Gofts Ltd and Indus Ltd. (only foreign operations) in thousands are as follows:	10	L5	CO1

Assets	Gofts Ltd	Indus Ltd	Liabilities	Gofts Ltd (parent)	Indus Ltd. (affiliated)
Cash	$2,200	Rs.8,000	A/C payable	$1,000	Rs.12,000
A/C Receivables	$2,400	Rs.4,600	Common stock	$4,000	Rs. 6,000
Net plant & equipment	$4,600	Rs.9,000	Retained earnings	$8,600	Rs.10,600
Investment	$2,000	----			
Inventory	$2,400	Rs.7,000			
Total	$13,600	Rs.28,600		$13,600	Rs.28,600

Plant and equipment and common stock were acquired when exchange rate was Rs.38.20/$. The current exchange rate is Rs.43.20/$ Gofts Ltd, translates by current rate method. Calculate the accounting exposure of Gofts Ltd, by the current rate method and monetary/non-monetary method.

			Marks	Level	CO
Q.4	a.	What is the difference between American and European options?	03	L1	CO3
	b.	Explain the features of any four International Financial Instruments.	07	L2	CO4
	c.	Given the following data: Spot rate : Rs.42.0010 per $ 6 month forward rate : Rs.42.8020 per $ Annualized interest rate on 6 month rupee : 12% Annualized interest rate on 6 month dollar : 8% Assume a borrowing of $1,000 at 8% for 6 months. Work out arbitrage possibilities.	10	L3	CO2
Q.5	a.	What is direct and indirect quotation? Give example.	03	L1	CO2
	b.	What is BOP? Explain the components of BOP.	07	L2	CO2
	c.	Set out below is a table of cross rates:	10	L4	CO2

	Deutsch Mark	Dollar	French Franc	Pound sterling
Frankfurt	-	2.2812	0.4712	4.0218
New York	0.4421	-	0.2110	1.8000
Paris	2.0949	4.7393	-	8.4301
London	4.0207	1.7775	8.4232	-

For Frankfurt, New York and Paris, all quotes are direct, for London, all quotes are indirect.
If all the above quotes were available at the same time and assuming no transaction cost, how might a trader take advantage of the situation?

			Marks	Level	CO
Q.6	a.	What is correspondent bank?	03	L1	CO4
	b.	From the following information, determine the outright rates, spread and the percentage of premium or discount.	07	L3	CO2

	SPOT	1 Month	6 Month
INR/MYR	16.7725/46	20/30	40/35
INR/NZD	47.5212/18	213/203	175/192

Q. No.		Question	Marks	Level	CO
	c.	ITI Ltd. is considering a project in Luxemburg, which will involve an initial investment of €1,30,00,000. The project will have 5 years of life. Current spot exchange rate is Rs.58 per Euro. The risk free rate in Germany is 8% and the same in India is 12%, cash inflow from the project are as follows:	10	L3	CO4

Year	1	2	3	4	5
Cash inflow	€30,00,000	€25,00,00	€35,00,000	€40,00,000	€60,00,000

Calculate the NPV of the project using foreign currency approach expressed in rupees. Required rate on this project is 14%.

Q.7	a.	A pound option put contract has strike rate of \$1.910/£ and a premium of \$0.05. Spot rate on maturity is \$1.810/£. Find the gain/loss to option buyer/options seller.	03	L2	CO3
	b.	Write an overview of International Money Market.	07	L2	CO1
	c.	Briefly discuss the various techniques to eliminate economic exposure.	10	L2	CO4
Q.8		**Case Study:**	20	L5	CO2

An American firm purchase \$4,000 worth of goods (FF 20,000) from a French company. The American distributor must make the payment in 90 days in French Francs. The following quotation and expectations exists for the French Franc.

Present spot rate \$ 0.2000
90 days forward rate \$ 0.2200
US interest rate 15%
French interest rate 10%
Your expectation of the spot rate 90 days is \$0.2400.

(i) What is the premium or discount on the Forward French Franc?
(ii) What is the interest differential between US and France?
(iii) Is there any incentive for Covered Interest Arbitrage (CIA)?
(iv) If there is a covered interest arbitrage, how can an arbitrageur take advantage of the situation?
Assume: a) The arbitrageur is willing to borrow \$4,000 or FF20,000.
b) There are no transaction costs.
(v) If transaction costs are \$50, would an opportunity still exists for Covered Interest Arbitrage (CIA)

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