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12MBAFM426/BI436

Fourth Semester MBA Degree Examination, June/July 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 PV tables is permitted.

1 a. What is GDR? (03 Marks)
b. Write short note on "Correspondent Bank". (07 Marks)
c. What are various International Business Methods? (10 Marks)

2 a. What do you mean by International Monetary System? (03 Marks)
b. Explain the rationale behind purchasing power parity. (07 Marks)
c. From the following information prepare BOP and suggest how it can be put to equilibrium using office reserve [US Dollar]:

Particulars	Debit ('000 dollar)	Credit ('000 dollar)
Import or Export	120	100
Service Render or Received	-	4
Unilateral transfer	-	2
Investment Income	1	-
Direct Investment	11	-
FDI	-	18
Portfolio Investment	9	-
Holding with banks	-	4
Other short term transaction	3	-
SDR Allocation	-	3
Net Official Reserve	-	2
Loan Official & Put	-	12
Errors & Omission	1	-

(10 Marks)

3 a. The foreign exchange trader has given following quotation for spot, one month and 3 month $0.024.479/81, 3/5, 8/7
What does this mean in term of dollar per Euro? (03 Marks)
b. Briefly discuss the various techniques to eliminate economic exposure. (07 Marks)
c. An MNC has account receivables of $1.8 billion and account payable of $940 million. It also has borrowed $700 million. The current spot rate is $1.8138/£.
(i) What is the MNCs dollar transaction exposure in dollar terms?
(ii) What is the exposure in pound terms?
(iii) Suppose the pound appreciates to $2.1122/£. What is MNC gain or loss, in pound terms on its dollar transaction exposure? (10 Marks)

4 a. Give 3 differences between forward and future. (03 Marks)
b. Discuss Country Risk Analysis. (07 Marks)
c. Companies A and B has been offered the following rates per annum 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 intermediary 0.2% pa and will appear equally attractive to both the companies. (10 Marks)

5 a. What is direct and indirect quotation? Give example. (03 Marks)
b. Discuss objective and functions of world bank. (07 Marks)
c. Modern Pharma Ltd. an Indian based MNC is evaluating an overseas investment proposal the project requires initial outlay of US $ 100 million and it is expected to give cash flows over a life of four years.

Years	1	2	3	4
CF ($ in million)	30	40	50	60

The current spot exchange rate is ₹45 for US $ the risk free rate of interest in India is 11% and in US 6%. The Modern Pharma requires a rupee return of 15% on the above project. Calculate the NPV of project under home currency. (10 Marks)

6 a. It is given that Dollar 6 month T bills 7% risk free 6 months Japanese bond = 6.5%. Spot exchange rate 1 Yen = $ 0.008. What is the 6 month forward exchange rate? (03 Marks)
b. What is foreign exchange rate? What are the factors that affect foreign exchange rate? (07 Marks)
c. A foreign exchange dealer has assumed the following information for a particular bank. Is there any Covered Interest Arbitrage Possibility (Assume investor invest $ 1000000)
Spot rate of C $ = $.70
90 day forward rate of C $ = $.69
90 day Canadian interest rate = 5%
90 days US interest rate = 3.5%
Calculate percentage return if investor used covered interest arbitrage. (10 Marks)

7 a. When south Korean export growth stalled some south Korean firms suggested that south Korean primary export problem was weakness in Japanese Yen. How would you interpret their statement? (05 Marks)
b. Explain how each of the following condition would be expected to affect the value of Mexican Peso.
Situation
i. Mexico suddenly experiences high rate of inflation
ii. Mexico interest rate rise while inflation is expected to remain low.
iii. Mexico central bank intervenes in the foreign exchange market by purchasing dollars with Peso.
iv. Mexico imposes quotas on product imported from US. (05 Marks)
c. One executive said that Europe was not considered as a location for direct foreign investment because of Euro's value. Interpret the statement. (05 Marks)
d. Briefly explain how inflation rate can affect equilibrium exchange rate of Japanese Yen's value with respect to that of dollar. (05 Marks)

8 An American firm has a EUR 70 million 180 days payable. Market rates are
EUR/USD Spot : 0.8733/41
180 days swap : 167/175
EUR interest rate : 3.90/4.10
USD interest rate : 7.95/8.05
a. How much will it have to pay if it covers the payable forward? (05 Marks)
b. How much will be the outflow be if it covers via money market? (07 Marks)
c. It is decided to lead the payment how much would it cost? (05 Marks)
d. Can it lead the payment and use a forward cover? How? Will it be equivalent to forward cover? (03 Marks)

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