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CBCS SCHEME

USN

16/17MBAFM404

Fourth Semester MBA Degree Examination, June/July 2019
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.*

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.

1 a. Mention the two risks which influences licencing in international business. **(02 Marks)**
b. What are the exposure to international risk? Explain. **(06 Marks)**
c. Explain the types of disequilibrium in balance of payment. **(08 Marks)**

2 a. What is a crawling peg and how does it work? **(02 Marks)**
b. Explain the measures to determine exchange rates in the spot market. **(06 Marks)**
c. Prepare a BOP statement for France from the following data:
(i) France exports goods worth FFr 5000.
(ii) France imports goods worth FFr 4000.
(iii) Expenditure of foreign tourists in France, FFr 2,500.
(iv) France makes interest and dividend payments to foreigners : FFr 2000.
(v) A French working in USA sends a cheque to his wife in Paris worth FFr 500.
(vi) A Bangladesh immigrant working in France remits money to his account in Dacca ; FFr 1000.
(vii) France Telecon invests in India ; FFr 4,500
(viii) IBM invests in France : FFr 2000.
(ix) A French resident buys a German Treasury bond ; FFr 300
(x) A swiss resident buys a French Treasury bond; FFr 5000
(xi) A short term loan advanced by BNP to a British resident ; FFr 4000
(xii) France borrows FFr 3800 for short term. **(08 Marks)**

3 a. Spot rate is Rs.64.50/\$. Three month forward rate is Rs.64.30/\$. Speculators own estimate is that the future spot rate after 3 months should be Rs.64.10/\$. Will the speculator go for a forward contract if he has \$10000 at his disposal? **(02 Marks)**
b. The following are three quotes in three Forcx markets :
\$ 1 = Rs.64.3011 in Mumbai
£ 1 = Rs.96.1125 in London
£ 1 = Rs.1.6231 in New York
Are any arbitrage gains possible? Assume there are no transistion costs and the arbitrageur has USD (\$).1,000,000 **(06 Marks)**
c. A Bank in Canada displays the following quotation:
$$\frac{C\$}{\$1} = \frac{1.3690}{1.4200}$$
At the same time a bank in New York quotes $\frac{\$}{C\$1} = \frac{0.7100}{0.7234}$
(i) Is there any arbitrage opportunity?
(ii) If the Canadian bank lowers its ask rate to C\$ 1.3742, Is there exists any arbitrage opportunity.
(iii) If you buy \$1 million from Canada and Sell then in US after the reduction of rate in Canada. What is the riskless profit you will make? **(08 Marks)**

4 a. What does correspondent bank mean? (02 Marks)
b. Explain the various methods of exchange rate regimes. (06 Marks)
c. The total translation exposure of HONEY LLC is Rs.1.5 million. This exposure is in French francs. Interest rates are 8 & 11 percent for the francs and rupee respectively. How is hedging to be done? Spot rate is Rs.6/FFr. The rupee is likely to depreciate by 6 percent. (08 Marks)

5 a. Differentiate between International Liquidity (IL) and SDR. (02 Marks)
b. Define and differentiate between Euro Bonds and Euro Credits (Euro Currency Loan). (06 Marks)
c. Company A and Company B have been offered the following rate p.a. on a $ 20 million 5 year loan.

Company	Fixed rate	Floating rate
A	12%	LIBOR + 1%
B	13.4%	LIBOR + 0.6%

Company A requires floating rate loan and company B requires a fixed rate loan. Design a swap agreement that will net a bank acting as intermediary 0.1% p.a and that will appear equally attractive to both the companies. (08 Marks)

6 a. What is international Fisher Effect? (02 Marks)
b. An Indian Importer imports goods worth £ 62,500 the expects an appreciation of pound. So he goes for hedging the risk. The currency market has the following data:
- Spot rate on the day of contract Rs.68.00/£.
- 3 month forward rate Rs.68.50/£.
- Strike rate in a 3 month call option Rs.68.60/£ with 5% premium.
- strike rate in a 3 month put option Rs.68.80/£ with 5% premium.
- Spot rate or the date of payment / maturity Rs.68.90/£.

Will he go for a hedge? If so, which of the options he will select? (06 Marks)
c. Explain briefly the internal hedging techniques. (08 Marks)

7 a. Define country risk. (02 Marks)
b. What is political risk? Explain political risk management stages used by MNC. (06 Marks)
c. Z Ltd. importing goods worth USD 2 million requires 90-days to make the payment. The overseas suppliers has offered 60-days interest free credit period and for additional credit for 30 days an interest of 8% per annum. The bankers of Z ltd., offer 30 days loan at 10% p.a. and their quote for foreign exchange is as follows:
Spot 1USD = Rs.56.50
60 days forward IUSD = Rs.57.10
90 days Forward IUSD = Rs.57.50
You are required to evaluate the following options:
(i) Pay the supplier in 60 days or
(ii) Avail the suppliers offer of 90 days credit.
Advice the Z Ltd. (08 Marks)

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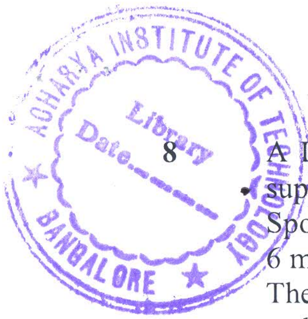

8 A Ltd., of UK has imported some chemical worth of USD 3,64,897 from one of the US suppliers. The amount is payable in 6 months time. The relevant spot and forward rates are :
Spot rate : USD 1.5617 – 1.5673
6 m forward rate : USD 1.5455 – 1.5609
The borrowing rates in UK and US are 7% and 6% respectively and deposit rates are 5.5% and 4.5% respectively. Currency options are available under which one option contract is for GBP 12,500. The option premium for GBP at a strike prize of USD 1.70/GBP is USD 0.037 (call option) and USD 0.096 (put option) for 6 months period.
The company has 3 choices:

(i) Forward cover. **(04 Marks)**
(ii) Money market cover **(06 Marks)**
(iii) Currency option. **(06 Marks)**

Which of the alternatives is preferable by the company?

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