



CBCS SCHEME

16/17MBAFM404

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Fourth Semester MBA Degree Examination, Aug./Sept.2020 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. What is MNC? (02 Marks)
b. What is BOP? Explain the components of BOP. (06 Marks)
c. Explain the scope of International Financial Management. (08 Marks)
- 2 a. What is covered interest arbitrage? (02 Marks)
b. Explain the European Monetary System. (06 Marks)
c. Record the following transaction from U.S. perspective:
(i) US firm exports \$50000 worth of goods to be paid in 6 months time
(ii) US government gives US bank balance of \$25000 to the government of Africa as a aid programme.
(iii) US resident Mr.Y visits London and spends \$10,000 on hotel and other expenses.
(iv) Mr.Y while returning back to US finds a purse on street in London carries the same with him and reports to US custom authority the value of currency in purse found to be \$2000.
(v) US resident purchases foreign stock for \$1000 and pays for it through bank balance.
(vi) A foreign investor purchases \$500 worth of treasury bill.
(vii) Mr.Z friend of Mr.Y, who is residing in Singapore sends a watch worth \$1000 as gift to Mr. Y.
(viii) US central bank purchases gold from Africa, worth \$100000 half of which will be paid in 2020. (08 Marks)
- 3 a. You are interested in buying Swedish Krona (SKr). Your banks quotes SKr 7.6040/\$ Bid and SKr 7.6150/\$ Ask. What would you pay in dollars if you bought SKr 1,000,000 at the current spot rate? (02 Marks)
b. Write a short note on IMF. (06 Marks)
c. Explain in detail International Fischer Effect graphically. (08 Marks)
- 4 a. What is Economic Exposure? (02 Marks)
b. Explain the technique to assess country risk. (06 Marks)
c. Ice Ltd. is a Japanese subsidiary of US firm. It has exposed assets of ¥8.5 billion and exposed liabilities of ¥7.5 billion. The spot rate is ¥135/\$.
(i) Calculate Ice Ltd Japan's exposure for the year in \$s.
(ii) The Yen appreciates from ¥135/\$ to ¥105/\$, what will be the translation exposure?
(iii) In the next year, the exposed assets increased by ¥2.5 billion and exposed liabilities increases to ¥9.5 billion and ¥ depreciates from ¥105/\$ to ¥130/\$, calculate the potential loss. (08 Marks)
- 5 a. What is correspondent bank? (02 Marks)
b. Suppose the interbank forward bid for June 18 on £ is \$1.8927 at the same time the price of the £ futures for delivery on June 18 is \$1.8915. How could the dealer use the arbitrage to profit from the situation with a contract size of 62500? (06 Marks)

- c. Spot rate is Rs.60/\$, 90 days forward rate is Rs.59.50/\$ Interest rate on borrowing in India and US is 6% p.a. Interest rate on deposit/investment is 5% p.a. 90 days call option with strike price of Rs.59.60 and a premium of Rs.0.05 per dollar, spot rate on the 90th day is Rs.59.80/\$. From the perspective of an importer use the alternatives.
- (i) No hedge (ii) Forward hedge
(iii) Money market hedge (iv) Option hedge (08 Marks)

- 6 a. ¥ spot rate is \$1 = 110¥ and interest rate in Tokyo and Newyork are 3 and 4.5% respectively. What is the expected \$ spot exchange rate one year hence? (02 Marks)
- b. Empire Ltd balance sheet in thousands of rupees as of 31st March is as follows:

Assets		Amt	Liabilities		Amt
Cash		6000	Accounts payable		3500
Accounts receivable		4500	Short-term bank loan		1500
Inventory		4500	Long term loan		4000
Net plant & equipment		10,000	Capital stock		10000
			Retained earnings		6000
		25000			25000

Rs.35/\$ was the rate, and on 1st April the exchange rate is Rs.42/\$. Calculate the accounting exposure using current rate method. (06 Marks)

- c. Company X wishes to barrow US dollars at a fixed rate of interest. Company Y wishes to borrow Japanese Yen at a fixed rate of interest. The amounts required by the two companies are roughly the same at the current exchange rate. The companies are subject to the following interest rates:

	Yen	Dollars
Company X	5.0%	9.6%
Company Y	6.5%	10.0%

Design a swap that will net a bank, 50 basis points per annum. (08 Marks)

- 7 a. What are currency cocktail bonds? (02 Marks)
- b. What are the various international business methods? (06 Marks)
- c. (i) Spot rate quotations from two banks in Thailand are received. Find the arbitrage profit assuming you have \$100000.

	M Bank	S Bank
Bid	\$0.0224	\$0.0228
Ask	\$0.0227	\$0.0229

- (ii) M bank provides the following quote for US \$ and Japanese yen.

	Bid price	Ask price
Japanese yen in US \$	\$0.0085	\$0.0086
Thai Baht in Japanese Yen	¥2.69	¥2.70

Find triangular arbitrage assuming \$1,00,000. (08 Marks)

- 8 Your company has to make US \$ 1million payment in 3 months time and the \$ are available now. You decide to invest them for 3 months and you are given with the following information. (i) US deposit rate is 8% p.a. (ii) £ deposit rate is 10% p.a. (iii) Spot exchange rate is \$1.80/£ (iv) 3 month forward rate is \$1.78/£
- a. Where should your company invest for better returns? (04 Marks)
- b. Assuming that the interest rate and spot exchange rate are same as above. What forward rate would yield an equilibrium? (03 Marks)
- c. Assuming that US interest rate and spot and forward rate remains as original where would you invest if the £ deposit rate is 14% p.a. (04 Marks)
- d. With the originally stated spot and forward rate and same \$ deposit rate what is the equilibrium £ deposit rate. (05 Marks)