CBCS SCHEME

USN

20MBAFM406

Fourth Semester MBA Degree Examination, June/July 2023

International 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.***

1 a. What is SWIFT mechanism? **(03 Marks)**
b. Explain the types of disequilibrium in balance of payment. **(07 Marks)**
c. What is fixed exchange rate regime? Briefly explain Gold Standard, Brelton Woods system and Smithsonian agreement. **(10 Marks)**

2 a. Following quotes are available:
Rs.78.99/Rs.79.25 per US $
Rs.82.25/ Rs.82.64 per €
Identify the above quotes and calculate the corresponding quote. **(03 Marks)**
b. Explain the participants of Foreign Exchange Market. **(07 Marks)**
c. The following quotes are given by Deutsche Bank:
Spot $ 0.2479 - 81 = 1€
1 month forward = $3/5
3 month forward = $8/5
6 month forward = $13/10
(i) What does this mean in terms of $/€?
(ii) If you wish to buy spot Euros, how much would you pay in Dollars?
(iii) If you wish to purchase, spot Dollars, how much would you pay in Euros?
(iv) Calculate forward premium or discount percentage assuming you are buying Euros. **(10 Marks)**

3 a. Write a short note on ADR and GDR. **(03 Marks)**
b. An importer has to make a payment of 1 million Thai Baht to its trading partner in Bangkok. The currency quotes available are
In India 1$ = 48.0843 / 48.0996 INR
In Thailand 1$ = 42.9400 / 42.9600 Thai Baht
What is the amount of bill payable in terms of Indian Rupees? **(07 Marks)**
c. Explain about different International Financial Instruments available to raise funds in foreign markets. **(10 Marks)**

4 a. Differentiate between Forward and Future. **(03 Marks)**
b. Explain different methods of doing International Business. **(07 Marks)**
c. Interest rate in UK is 3% and in India it is 5%. The spot rate is 1£ = Rs.75. One year forward rate is 1£ = Rs.84. Is there any opportunity for Covered Interest Arbitrage? Assume the Arbitrager can borrow £1000 or Rs.10,000. **(10 Marks)**

5 a. What is Swap agreement? **(03 Marks)**

b. Explain purchasing power parity theory. **(07 Marks)**

c. A foreign exchange dealer has provided the following information:
Value of Canadian Dollar in USA = $90/CAD
Value of Newzeland Dollar in USA = $30/NZ$
Value of Canadian Dollar in Newzeland Dollar = NZ$3.02/CAD
On the basis of above information is Triangular Arbitrage possible? If yes, explain the steps that would reflect triangular arbitrage. Also calculate the profit from this strategy if you have $15,00,000 to use. **(10 Marks)**

6 a. What are the objectives of IMF? **(03 Marks)**

b. Interest rate in UK = 10%, in India 14%, spot rate 1£ = Rs.103. Calculate 30 day, 60 day and 90 day forward quotes. **(07 Marks)**

c. General Motors (US MNC) is planning to install a manufacturing plant to produce 500,000 units of automobile components in India. The plant would cost Rs.50 million. The plant is expected to have a useful life of 5 years with Rs.10 million as salvage value. The MNC would follow straight line method of depreciation. The firm also needs Rs.5 million towards working capital. Selling price and variable cost per unit will be Rs.70 and Rs.20 respectively. Additional fixed cost per annum is estimated at Rs.2 million. The MNC will be subjected to 40% tax rate in India and required rate of return is 15%. It is forecasted that rupee will depreciate with respect to US $ at 3% per annum with initial exchange rate of Rs.64/$.
(i) Compute NPV for the project proposal.
(ii) Advice the General Motors regarding the feasibility of the project. **(10 Marks)**

7 a. Explain the relationship between import, export and appreciation and depreciation of currency. **(03 Marks)**

b. Adani Exports Ltd. is exporting 100 articles at $50 each and importing 100 units of material for €10 each. The company incurs other variable expenses of Rs.20,000. At the time of entering into contract the Rs.67 per US $ and at the time of export the dollar value Rs.65/$ while Rs./€ at the time of order is Rs.72/€ and at the time of import it is Rs.76/€. Calculate transaction exposure of Adani Exports. **(07 Marks)**

c. Company A and B have been offered the following rates per annum on a $20 million 5 years loan.

Company	Fixed Rate	Floating Rate
A	12%	LIBOR + 0.1%
B	13.4%	LIBOR + 0.6%

Company A requires floating rate and B requires fixed rate. Design a swap that will net a bank acting as intermediary charging 0.1% p.a. as commission and make the deal attractive to both the parties. **(10 Marks)**

8 *Case Study: (Compulsory)*

DC Corporation is a US based software company which requires 1 lakh pounds in 180 days to pay towards payable of UK company. The DC corporation decides to hedge itself against currency exposure and considers four options for it.

(i) Forward Market Hedge
(ii) Money Market Hedge
(iii) Option Hedge
(iv) No Hedge

Its analysts develops the following information:

Current sport rate 1£ = $1.5

180 days forward rate 1£ = $1.48

Interest rates are:

	UK	USA
80 days deposit rate	4.5%	4.5%
180 days borrowing rate	5.1%	5.1%

The company also has the following information regarding call option on pounds that expires in 180 days, has an exercise price of $1.5 and premium of $0.02. The future spot rate for 180 days are forecasted as follows:

Possible outcome	Probability
$1.44	20%
$1.46	60%
$1.53	20%

Required:

(i) Recommend Hedging Technique for DC Corporation.
(ii) Analyze the consequence of No Hedge. **(20 Marks)**

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