

CBCS SCHEME

20MBAFM406

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Fourth Semester MBA Degree Examination, Dec.2023/Jan.2024 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 are floating rate notes? (03 Marks)
b. Explain the functions of foreign exchange markets. (07 Marks)
c. Which are the theories that explain the foreign exchange determination? Discuss. (10 Marks)
- 2 a. How currency swap is different from interest rate swap? (03 Marks)
b. RB Alliaann sold Omani Rial 322500 value spot to your customer at Rs.167.43 per OMR and covered you in UK stock exchanger on the same day.
When the exchange rates were $GBP1 = OMR 0.4901 - 0.4941$.
Local interbank market rates for GBP were, spot $GBP1 = Rs.80.71 - 80.86$.
Calculate cover rate and ascertain the profit or loss in the transaction ignore brokerage. (07 Marks)
c. What is BOP? What are its accounting components? Explain. (10 Marks)
- 3 a. Differentiate Bretton woods system from Gold standard. (03 Marks)
b. Inflation rates in UK and India are respectively 3% and 6% p.a. What is the expected exchange rate after one year if it was Rs.78/ £ at the beginning? What will be the rate after 2 years? (07 Marks)
c. What are the sources of international finance? Explain. (10 Marks)
- 4 a. What is cross rate? (03 Marks)
b. Suppose interest rate on pound sterling is 12% p.a. in London and interest rate on a comparable dollar investment in New York is 7% p.a.. The pound sterling spot rate is \$ 195/ £ and one year forward rate is \$1.87/ £ . Is there any arbitrage opportunity? (07 Marks)
c. Discuss the various banking services available to the international business. (10 Marks)
- 5 a. What is SWIFT in forex market? (03 Marks)
b. Explain the various international business methods. (07 Marks)
c. Discuss the various techniques of managing international transaction exposures. (10 Marks)
- 6 a. What is translation exposure? (03 Marks)
b. Discuss the various ways in which operating exposures can be managed. (07 Marks)
c. Suppose the following quotes are received for spot, 30-days and 60-days and 90-days swiss francs and british pounds against Euro.

Spot	30 day	60 day	90 day
CHF/EUR : €1.1615 - 30	19/17	26/22	42/35
GBP/EUR : €0.8163-68	4/6	9/14	25/38

Calculate the outright forward rates and bid ask spread.

(10 Marks)

- 7 a. What is international fisher effect? (03 Marks)
 b. Differentiate forward, future and options markets. (07 Marks)
 c. Company A wishes to borrow US dollar at fixed rate of interest. Company B wishes to borrow Japanese Yen at a fixed rate of interest. The amount required by both companies are roughly same at the current exchange rate. The companies are subjected to the following interest rates which have been adjusted to reflect the impact of taxes.

	Yen	Dollars
Company A	5%	9.6%
Company B	6.5%	10%

Design a swap that will net a bank acting as intermediary, 50 basis points per annum. Make the swap equally attractive to the two companies and ensure that all foreign exchange risk is assumed by the bank. (10 Marks)

8 **CASE STUDY: (compulsory)**

You, a foreign exchange dealer, of your bank, are informed that, your bank has sold a T.T on Copenhagen for Danish Kroner 10,00,000 at the rate of Danish Kroner 1 = Rs.6.5150. You are required to cover the transaction either in London or New York market. The rates on that date are as under:

	Bid	Ask
Mumbai – London	Rs.74,3000	Rs.74,3200
Mumbai-New York	Rs.49,2500	Rs.49,2625
London –Copenhagen	DKK 11,4200	DKK 11.4350
Newyork – Copenhagen	DKK 7.5670	DKK 7.5840

In which market, will you cover this transaction? London or New York? What will be exchange profit or loss on the transaction? Ignore brokerages. (20 Marks)

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