CBCS SCHEME

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22MBAFM403

Fourth Semester MBA Degree Examination, June/July 2024
Global 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.
3. M : Marks , L: Bloom's level , C: Course outcomes.

			M	L	C
Q.1	**a.**	Explain BoP.	**3**	**L2**	**CO1**
	b.	Describe the different types of participants in the Foreign exchange market and their roles.	**7**	**L2**	**CO2**
	c.	Discuss the functions of Foreign exchange market.	**10**	**L2**	**CO2**
Q.2	**a.**	In India 1£ = Rs 78/79. In Europe 1£ = 1.2/1.3 €. In India what is 1€ = Rs?	**3**	**L3**	**CO2**
	b.	Explain the causes of disequilibrium in BoP.	**7**	**L2**	**CO1**
	c.	A Foreign exchange trader gives the following quotes for the Belgian franc spot , one month , three months and 6 months to a US based treasurer. $ 0.02368/70 4/5 8/7 14/12 a) Calculate the outright quotes for one , three and six months forward. b) If the treasure wishes to buy Belgian franc three months forward, how much he would pay in dollars? c) If he wishes to purchase US $ one month forward, how much would he have to pay in Belgian franc? d) Assuming that Belgian franc are being bought. What is premium or discount for one , three and six months forward rates in annual percentage terms?	**10**	**L3**	**CO2**
Q.3	**a.**	Differentiate Forward and Future contracts.	**3**	**L4**	**CO3**
	b.	Total translation exposure of a company is Rs 1.5 million. The exposure is in French franc. Interest rate are 8% and 11% for the franc and rupee respectively. How is hedging to be done? Spot rate is Rs 6/FFr. The rupee is likely to depreciate by 6%.	**7**	**L4**	**CO3**
	c.	Given the following data : Spot rate – Rs 82.0010 / $; 6 months forward rate – Rs 82.8020/$ Annualised interest rate on 6 months rupee – 12%. Annualised interest rate on 6 months dollar – 8%. Calculate the arbitrage possibilities for an investment of $ 1000.	**10**	**L3**	**CO4**
Q.4	**a.**	Explain the types of bonds traded in International bond market.	**3**	**L2**	**CO2**

	b.	The US inflation rate is expected to average about 4% annually , while the Indian rate of inflation is expected to average about 12% annually. If the current spot rate for the rupee is $ 0.0285 , what is the expected spot rate is two years?	**7**	**L3**	**CO4**
	c.	X Co. and Y Co. require Rs 1 million for five years term and have been offered the following rates : Company | Fixed | Floating X | 9.2% | 6 month MIBOR + 0.2% Y | 10.5% | 6 month MIBOR + 0.50% X Co. desires to borrow floating rate linked to 6 month MIBOR while Y Co. wants to borrow at fixed rate. Design a swap where in the intermediary bank charges 0.2% as commission and will appear equally attractive to both the parties.	**10**	**L5**	**CO3**
Q.5	**a.**	Explain Economic Exposure.	**3**	**L2**	**CO4**
	b.	Briefly discuss the factors affecting Foreign exchange rate.	**7**	**L2**	**CO4**
	c.	An Indian firm has imported machinery worth MYR 1.5 million from Malaysia which has to be paid after 3 months. The current exchange rate of MYR is Rs 16.00 spot and 3 month forward is Rs 16.50. What should the company do if MYR will settle at : i) Rs 17.00 and ii) Rs 16.20 after 3 months.	**10**	**L4**	**CO3**
Q.6	**a.**	Distinguish between Foreign portfolio Investment and Foreign direct Investment.	**3**	**L4**	**CO3**
	b.	Briefly explain the various internal hedging strategies for managing foreign exchange risk.	**7**	**L2**	**CO3**
	c.	A Company will need to buy after 4 months a Forward Rate Agreement from a bank to borrow for 3 months. The 4/7 FRA is quoted at 6.5. What will the company do if after 4 months, the rate a) Rises to 7% b) Falls to 6% c) Remains at 6.5%. The borrowing is planned for $ 10,00,000.	**10**	**L4**	**CO4**
Q.7	**a.**	Explain International Monetary System.	**3**	**L2**	**CO1**

	b.	A US MNC is planning to install a manufacturing unit to produce 5,00,000 units of an automobile component in India. The plant would cost Rs 50 millions. 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 need Rs 5 million as working capital. Selling price and variable cost per unit will be Rs 70 and Rs 20 respectively. Additional fixed cost per annum are estimated at Rs 2 million. The MNC will be subjected to 40% tax rate in India and required rate of returns is 15%. It is forecasted that the rupee will depreciate to US $ @ 3% p.a. with the initial exchange rate of Rs 48/$. Accordingly the forecasted exchange rates for the next 5 years are 49.44 , 50.92 , 52.45 , 54.02 , 55.64 respectively. Advice the MNC regarding the feasibility of the proposal.	**7**	**L5**	**CO4**
	c.	ABC House Ltd., manufactures orange marmalade in England. It is the wholly owned subsidiary of XYZ Inc. of USA. The functional currency for ABC is the Pound sterling which currently sells at $ 1.5000/£. The reporting currency for XYZ is the US $. Non consolidated financial statements for both ABC and XYZ are as follows :	**10**	**L3**	**CO4**

Liabilities	XYZ	ABC	Assets	XYZ	ABC
Current liabilities	$ 22,000	£ 4000	Cash	$ 8000	£ 2000
5 year term loan	-	£ 4000	Account Receivable	$ 10,000	£ 4000
Capital stock	$ 9000	£ 2000	Inventory	$ 8000	£ 2000
Retained Earnings	$ 9500	£ 4000	Net Plant	$ 10,000	£ 6000
			Investment	$ 4500	-
	40500	14000		40500	14000

a) Prepare a consolidated Balance sheet for XYZ Ltd.
b) What is ABC Ltd's accounting exposure in dollars? Use the current rate method of calculation.

Q.8 Nihal Corporation is a US based software consulting firm specializing in financial software for several fortune 500 clients. It has offices in India, Europe and Australia. In 2023, Nihal Corporation required £ 100,000 in 180 days and had many option to hedge the risk.

It's analysts developed the following information which was used to assess the alternative solutions.

Current spot rate of £ is $ 1.50.

180 days of forward rate $ 1.48.

A call option on £ that expires in 180 days has an exercise price of $ 1.49 and a premium of $ 0.03.

A put option on £ that expires in 180 days has an exercise price of $ 1.50 and a premium of $ 0.02.

Interest rates are as below :

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

	The future spot rate in 180 days were forecasted as follows : Possible outcome : | \$ 1.44 | \$ 1.46 | \$ 1.53 Probability : | 0.20 | 0.60 | 0.20 Analyse the position of the Company when				
	a.	It is unhedged.	**5**	**L5**	**CO4**
	b.	Hedging with forward contract.	**5**	**L5**	**CO4**
	c.	Hedging with buying a call option.	**5**	**L5**	**CO4**
	d.	Hedging with selling a put option.	**5**	**L5**	**CO4**

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