JP – 937

IV Semester M.B.A. (Day/Evening) Degree Examination, June 2008
(Updated Scheme)
F-4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

1. Answer **any six** from the following : **(6×2=12)**
   a) What is theory of Comparative Advantage ?
   b) Write the structure of Current Account in B.O.P.
   c) Who are Authorised dealers ?
   d) State three benefits of Centralised Cash Management System.
   e) Explain the terms bid rate and offer rate.
   f) What do you mean by short position ?
   g) What is country risk ?
   h) What is economic exposure ?

SECTION – B

Answer **any four** from the following : **(4×5=20)**

2. In London a dealer quotes GBP/CHF Spot 3.5250/50, GBP/JPY Spot 180.80/181.30. What do you expect CHF/JPY rate to be Geneva ?
3. What are the objectives of I.M.F. ?
4. State the main features of currency futures.
5. One year dollar interest rate is 5%. The GBP rate is 8%. The spot rate of USD against GBP is \$ 1.60.

   Find: 1 month forward, 6 month forward and 1 year forward rates.
6. If Bank 'A' in London Quotes
   USD/CHF : 1.4955/1.4962,
   Bank 'B' in Newyork Quotes
   CHF/USD : 0.6695/0.6699
   is there any arbitrage opportunity ?
7. State the methods of managing transaction exposure.

SECTION – C

Answer **any three** from the following : **(3×10=30)**

8. What is covered interest rate arbitrage ?
   Assume spot rate of £ = \$ 1.60
   180 day forward rate £ = \$ 1.56
   180 day interest rate in U.K. = 4%
   180 day U.S. interest rate = 3%
   Is covered interest arbitrage by U.S. invertor feasible ?

9. Compare the I.R.P. and P.P.P. theories.

10. A company operating in a country having dollar as its unit of currency, has invoiced to an India Co. The payment being due 3 months from the date of invoice. The invoice amount is \$ 13,750. At spot it is equivalent to Rs. 5,00,000. It is anticipated that exchange rate will decline by 5% over three months, and in order to protect the \$ payment, the importer proposes to hedge. The 3 month forward rate \$ 0.0273. You are required to calculate the expected loss.

    a) If hedged   b) If there is no hedge.

11. Briefly explain the impotant factors that should be assessed from the points of view of Income tax, while entering into foreign collaboration agreement.

12. FDI flows into India are around 3.4% which is very low when compared to China and Hongkong. What policy measures do you think the regulatory authorities should initiate to attract more FDI flow into the country ?

SECTION – D

13. Read the following case and answer the questions. **(1×13=13)**

Hedging Decisions by the Sports Exports Company.

Jim Logan, owner of the Sports Exports Company, will be receiving about 10,000 British pounds about one month from now as payment for exports produced and sent by his firm. Jim is concerned about his exposure because he believes that there are two possible scenarios : (1) the pound will depreciate by 3 percent over the next month or (2) the pound will appreciate by 2 percent over the next month. There is a 70 percent chance that Scenario 1 will occur. There is a 30 percent chance that Scenario 2 will occur.

Jim notices that the prevailing spot rate of the pound is \$ 1.65, and the one-month forward rate is about \$1.645. Jim can purchase a put option over the counter from a securities firm that has an exercise (strike) price of \$1.645, a premium of \$.025, and an expiration date of one month from now.

1) Determine the amount of dollars received by the Sports Exports Company if the receivables to be received in one month are not hedged under each of the two exchange rate secnarios.
2) Determine the amount of dollars received by the Sports Exports Company if a put option is used to hedge receivables in one month under each of the two exchange rate scenarios.
3) Determine the amount of dollars received by the Sports Exports Company if a forward hedge is used to hedge receivables in one month under each of the two exchange rate scenarios.
4) Summarize the results of dollars received based on an unhedged strategy, a put option strategy, and a forward hedge strategy. Select the strategy that you prefer based on the information provided.

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