PG – 572

IV Semester (Day) M.B.A. Examination, June/July 2010
(2007-08 Scheme)
Paper – F.4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

SECTION – A

1. Answer **any six** of the following. **Each** question carries **two** marks. **(6×2=12)**

   a) What is the difference between absolute and relative purchasing power parity theory ?

   b) What is straddle ?

   c) What is law of one price ?

   d) Differentiate between risk and exposure.

   e) What is CIA ?

   f) Write about Direct and Indirect quotations.

   g) Define Marking to Market.

   h) Define translation exposure.

SECTION – B

Answer **any three** of the following : **(3×8=24)**

2. Mention the key areas of International Cash Management.

3. Why do companies involved in international trade have to hedge their foreign exchange exposure.

4. The one year forward rate is used as the forecast of the future spot rate. The FFr spot rate is $ 0.40 while its one year forward rate is $ 0.38. The French one year interest rate is 11 %, what is the expected effective yield on a year deposit in France by a US firm ? Give detail calculations.

5. What are the functions of foreign exchange market ?

6. AV Ltd. is the Indian affiliate of a US sports manufacturer. AV Ltd. manufactures items which are sold primarily in the US and Europe. AV's B/S in (000' s)Rupees as of March 31st is as follows :

Assets		**Liabilities**	
Cash	12,000	Accounts payable	7,000
Accounts receivable	9,000	Short term bank loan	3,000
Inventory	9,000	Long term loan	8,000
		Capital stock	20,000
Net plant and equipment	20,000	Retained earnings	12,000
	50,000		**50,000**

Exchange rates for translating the B/S into US $ are :

Rs. 35/$: Historic exchange rate, at which plant and equipment, long term loan and common stock were acquired or issued.

Rs. 40/$: March 31st exchange rate. This was also the rate at which inventory was acquired.

Rs. 42/$: April 1st exchange rate, after devaluation of 20 %.

Assuming no change in B/S accounts between March 31st and April 1st calculate accounting gain or loss by the CRM and by monetary/non-monetary method. Explain accounting loss in terms of changes in the value of exposed accounts.

SECTION – C

Note : Answer **any two** of the following : **(2×12=24)**

7. State the problems of Multinational Companies relating to working capital management.

8. Company Z wishes to borrow 10 M $ at a fixed rate for 5 years and has been offered either 11 % fixed or 6 months LIBOR + 2 %. Company X wishes to borrow $ 10M at a floating rate for 5 years and has been offered either 10 % fixed or 6 months LIBOR + 1 %. How do they enter into a swap arrangement which benefit them equally ? What are the risks did this arrangement generates ?

9. The current CHF/USD spot is 0.6675. The following 90 days call option on CHF is available :

Strike price	**premium**
0.60	0.75
0.65	0.03
0.68	0.01
0.70	0.005
0.75	0.002

Your view is that CHF is going to make strong up move during the next 90 days. Your risk appetite is moderate. What strategy is suitable for you ? Explain with the pay-off table.

SECTION – D

(Compulsory question) **(1×15=15)**

10. Suppose that you hold a piece of land in the city of London that you may want to sell in one year. As a US resident, you are concerned with the \$ value of the land. Assume that, if the British economy booms in future, the land will be worth 2,000 £ and one British £ will be worth \$ 1.40. If the British economy slows down on the other hand, the land will be worth less by 1500 Ps, but the £ will be stronger say 1.50 \$ £. You feel that the British economy will experience a boom of 60 % probability and slowdown 40 % probability.

    a) Estimate your exposure to exchange risk.

    b) Compute the variance of \$ value of property that is attributable to exchange rate uncertainty.

    c) Discuss how you can handle exchange risk exposure and the consequence of hedging.
