PG – 010

IV Semester M.B.A. Degree Examination, June 2011
(2007-08 Scheme)
MANAGEMENT
F-4 : International Financial Management

Time : 3 Hours Max. Marks : 75

Instruction : *Answer* ***all*** *Sections. Marks are indicated against* ***each*** *Section.*

SECTION – A

1. Answer **any six** of the following : **(6×2=12)**
   a) What do you understand by International Financial Management ?
   b) What are cross rates ?
   c) Define transaction exposure.
   d) What do you understand by "Law of One Price" ?
   e) What is International capital budgeting ?
   f) What is letter of credit ?
   g) Distinguish between direct and indirect quote.
   h) Define speculation.
   i) What are the hedging instruments ?
   j) Define FDI.

SECTION – B

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

2. What do you know about foreign exchange market ? Explain the factors responsible for exchange rate fluctuation.

3. Define Interest Rate Parity theory. Differentiate IRP theory with PPP theory.

4. Distinguish between forwards and futures.

5. a) The spot rate of $ is 150 ¥. The inflation rate in Japan is 5%, while it is 10% in U.S. What would be the $ rate in terms of ¥ one year hence ?

P.T.O.

b) An importer has purchased from Germany goods worth ∈ 50,000. There is no quote available for Rs. versus ∈ . The quote available are :

i) US $ = Rs. 46.50/60 and

ii) US $ = ∈ 5.2025/50.

What is the value of this transaction in Rupee terms ?

6. Spot Rate = Rs. 45.5300/$

6-month forward rate = Rs. 44.2100/$

Interest rate per annum in India = 10%

Interest rate per annum in U.S. = 7%

Given the above data, is there an arbitration possibility. How ? Show the process with hypothetical amount.

SECTION – C

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

7. Define Balance of Payments. Why would it be useful to examine a country's balance of payments ? Show a typical balance of payments statement showing all the sub-balances.

8. A foreign exchange dealer quoted the following rates for the pound sterling on April 30, 2011.

Spot	1.4710/1.4810
30-day forward	65/44
90-day forward	145/123
180-day forward	290/222

a) Determine the outright quotations for the pound sterling.

b) Was the pound sterling selling at a forward premium or forward discount on that date ? Calculate the forward premium (or discount) on the 90-day forward contract. Use ask (offer) rate to answer this question.

c) How many U.S. dollars would it cost you to buy £ 10,00,000 on April 30, 2011 ?

d) If you expect to receive £ 10,00,000 in 180 days from the quotation date, how many U.S. dollars would you expect to realise by selling them forward ?

9. If a person exports 100 pieces of Jewellery to USA, price per piece is 200 $, while he imports material from Japan and price per piece is 6000 ¥ , if labour rate is ₹ 1000 per piece and variable 0.4 per piece ₹ 500 if the spot rate is ₹ 50/$ and 120 ¥ /$ and one month later when the exports take place one $ = ₹ 53 and one $ = 110 ¥, compute transaction exposure. If the company maintains its export price in rupee and price elasticity of demand is 2 what will be the economic exposure ?

SECTION – D

Case Study (Compulsory) **(1×15=15)**

10. Indian importer imports goods worth US $ 1000 from USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate, so it thinks about selecting a particular alternative.

    i) Spot rate in ₹ 42/$

    ii) 90 days forward rate is ₹ 40/$

    iii) Interest rate on borrowing in Indian USA is 6% p.a.

    iv) Interest rate on deposit is 5% p.a.

    v) A 90 days call option is having a strike price of ₹ 39.60 and a premium of ₹ 0.05/$

    vi) A 90 days put option is having exercise price of ₹ 39.80 and a premium of ₹ 0.05/$

    vii) Spot rate on the 90th day is ₹ 40.10/$.

    Evaluate each method of payment.