



IV Semester M.B.A. Degree Examination, June/July 2012
(2007-08 Scheme)

MANAGEMENT

F4 : International Financial Management

Time : 3 Hours

Max. Marks : 75

Instruction : Answer all the Sections.

SECTION – A

1. Answer any six questions :

(6×2=12)

- a) Distinguish between leads and lags.
- b) What is Swaption ?
- c) What is cross rate ?
- d) What do you mean by back-to-back deal ?
- e) What is crawling peg ?
- f) Find the real interest rate if nominal interest rate is 15% and rate of inflection is 9%.
- g) If interest rate in India and the USA are 9.06% and 6% and if spot exchange rate is Rs. 43.91/US \$. Find the exchange rate during the next year.
- h) What is official Reserve Account ?

SECTION – B

Answer any three questions :

(3×8=24)

2. How has the growth in International Trade and MNC been responsible for growing importance of the study of international finance ?
3. Discuss the importance of IMF in India.
4. 'Is International working Capital Management more complex than the domestic working Capital Management' Discuss.

P.T.O.



5. a) A firm in England has to make a payment of SGD 1 million to its supplier in Singapore. The currency quotes available are as follows :

GBP 0.01117/0.0119 for INR

SGD 0.03510/0.03520 for INR

What is the amount to be paid in British pounds by the importer ?

- b) One year dollar interest rate is 5%. The GBP rate is 8%. The spot rate of USD against GBP is \$ 1.60. Find 6 months forward rate.
6. ABC Ltd. is the Indian affiliate of a US sports manufacturer. ABC Ltd. Manufactures items which are sold primarily in the US and Europe. ABC's B/S in 000' s of Rupees as of March 31st is as follows :

Assets	Rs.	Liabilities	Rs.
Cash	6,000	Accounts payable	3,500
Accounts receivable	4,500	Short term bank loan	1,500
Inventory	4,500	Long term loan	4,000
Net plant and Equipment	10,000	Capital stock	10,000
		Retained earnings	6,000
	<u>25,000</u>		<u>25,000</u>

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

- 1) Rs. 40/\$; Historic Exchange rate
- 2) Rs. 45/\$ March 31st Exchange rate
- 3) Rs. 47/\$ April 1st Exchange rate, after devaluation of 20%

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



SECTION - C

Answer any two questions :

(2x12=24)

7. What is covered interest rate arbitrage ?

Assume spot rate of £ = \$ 1.60

180 day forward rate £ = \$ 1.56

180 day interest rate in UK = 4%

180 day US interest rate = 3%

Is covered interest arbitrage by US investor feasible ?

8. Explain the various sources of International Finance and criteria followed while raising funds from International Financial Market.

9. Indian Importer imports goods worth US \$ 1,000 from the USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate and so it thinks about selecting a particular alternative

1) Spot rate is ₹ 45/\$

2) 90 days FR is ₹ 42/\$

3) Interest rate on borrowing in India and USA is 6% p.a.

4) Interest rate on deposit /Investment is 5% p.a.

5) A 90 day call option is having a strike price of ₹ 42.10 and a premium of ₹ 0.05/\$

6) A 90 day put option is having exercise price of ₹ 42.30 and a premium of ₹ 0.05/\$

7) Spot rate on the 90th day is ₹ 42.30/\$

Suggest the suitable alternative to the importer.



SECTION - D

10. Case Study (Compulsory) :

(15x1=15)

How to manage the transaction exposure ? Assume a person Exports 100 articles to USA and price per article is 200 \$ while he imports, material from Japan and price per article is 5,000 ¥. If labour rate is ₹ 1,000 per article and variable O.H per article is ₹ 500 if the SR is ₹ 45 / \$ and ¥/110/\$ and one month later when the exports take place one \$ = ₹ 50 and one \$ is 100¥. compute the transaction exposure, what will be Economic Exposure, if company maintains its export price in rupees and price elasticity of demand is 2 ?