# IV Semester M.B.A. (Day) Degree Examination, June/July 2013
## (2007-08 Scheme)
## Management
## F-4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 75

### SECTION – A (6x2=12)

**Note :** Answer **any six** of the following questions. **Each one** carries **two** marks.

1. a) Explain the term 'Balance of payments'.
   b) What is meant by direct quote ?
   c) What do you understand by the term 'swap' ?
   d) What is meant by foreign exchange risk ?
   e) Distinguish between FDI and PFI.
   f) What is meant by Euro currency ?
   g) What do you understand by the term bilateral relief ?
   h) What do you mean by tax haven subsidiary ?

### SECTION – B (3x8=24)

**Note :** Answer **any three** of the following questions. **Each one** carries **eight** marks.

2. Distinguish between translation, transaction and economic exposures.
3. What are the double taxation relief provisions available in Indian tax laws ?
4. Discuss the funding avenues in global capital markets.

5. A foreign exchange dealer has assumed the following information for a particular bank :

| | Quoted price |
|---|---|
| Value of Canadian dollar in U.S. dollars | $.90 |
| Value of New Zealand dollar in U.S. dollars | $.30 |
| Value of Canadian dollar in New Zealand dollars | NZ$3.02 |

a) On the basis of the above information, is Triangular Arbitrage possible ? If yes, explain the steps that would reflect Triangular Arbitrage. Also calculate the profit from this strategy if you had $ 1,500,000 to use.

b) What market forces would occur to eliminate any further possibilities of Triangular Arbitrage ?

6. Stoner U.K., the British subsidiary of Stoner U.S. has current assets of £2 million, fixed assets of £3 million, and current liabilities of £2 million. Stoner has no long-term liabilities.

a) Calculate Stoner U.K.'s translation exposure under all the four translation methods.

b) If the pound is assumed to be the functional currency, and it depreciates from $1.60 to $1.50, calculate the FASB-52 translation gain (loss) that will be reflected in the CTA account ?

c) Included in current assets in inventory of £0.7 million. Assume the historical exchange rates for inventory and fixed assets are $1.45 and $1.65 and dollar is the functional currency. Calculate Stoner U.K.'s translation gain or loss.

## SECTION – C (2×12=24)

**Note :** Answer **any two** of the following questions. **Each** one carries **twelve** marks.

7. Trace the evolution of fixed and floating exchange rates in international monetary system.

8. LSE Corporation hedges a portfolio of German government bonds with a six-month forward contract. The current spot rate is Euro .65/$ and the 180-day forward rate is DM .61/$. At the end of the six-month period, the bonds have risen in value by 3.50% (in Euro terms) and the spot rate is now Euro .45/$.

a) If the bonds earn interest at the annual rate of 5% paid semi-annually, what is the LSE Corporation's total dollar return on the hedged bonds ?

b) Calculate the return on the bonds without hedging.

c) Calculate the true cost of the forward contract.

Assume that the value of the German government bonds are 10,000 DM.

9. Companies A and B has been offered the following rates per annum on a $20 million five-year loan :

| | Fixed rate | Floating rate |
|---|---|---|
| Company A | 13.0% | LIBOR + 0.3% |
| Company B | 14.5% | LIBOR + 0.5% |

Company A requires a floating-rate loan; company B requires a fixed-rate loan. Design a swap that will net a bank, acting as intermediary, 0.2% per annum and that will appear equally attractive to both companies.

SECTION – D **(1×15=15)**

**(Compulsory)**

10. Case study.

Compaque Company has to make a US$ 1 million payment in 3 months time. The dollars are available now. You decide to invest them for 3 months.

US deposit rate : 9% p.a.

UK deposit rate : 10% p.a.

Present Spot rate is $ 1.90/pound

Three month forward rate is $ 1.88/pound

a) Where should the company invest for better returns ?

b) Assuming that the interest rates and the returns spot exchange rate remain as above, what forward rate would yield an equilibrium situation ?

c) If the sterling deposit rate was 12% p.a. and all other rates remain as in the original question, where should you invest ?

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