PG – 1005

IV Semester M.B.A. Degree Examination, June/July 2015
(2007-08 Scheme)
F.4 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours   Max. Marks : 75

SECTION – A

Answer **any six** of the following questions. **Each** question carries **two** marks. **(6x2=12)**

1. a) State any two benefits to host and home country from FDI.
   b) What do you mean by translational exposure ?
   c) What is Coupon Swaps ?
   d) Distinguish between Hedging and Speculation.
   e) What is Country Risk ?
   f) What is bilateral relief ?
   g) What is cross rate quoting ?
   h) Find the one month forward rate of US $, if spot rate is Rs. 62 and the forward premium is 13%.

SECTION – B

Answer **any three** of the following questions. **Each** question carries **eight** marks. **(3x8=24)**

2. Explain tax neutrality and tax equity.

3. How MNC's cost of capital is different from domestic companies cost of capital ?

4. a) If exchange rate at the end of 2014-2015 is Rs. 63.91/US$ and if the rate of inflation in India and USA during 2014-2015 is respectively 6% and 4%. Find :
      i) Inflation rate differential between the two countries and
      ii) The exchange rate at the end of 2014-15.
   b) If real interest rate is 8% and the inflation rate is 10%, what would be the nominal interest rate ?

5. Explain the role of GDR as a financial instrument.

6. The following exchange rates are quoted by different banks. ABC bank quotes $ 0.8645/€, XYZ bank quotes $ 1.5553/£ . PQR bank quotes 1.7200 €/£. A market trader would like to sell 1 million $ to XYZ bank at spot rate. What will be the profit/loss from interbank transactions ?

P.T.O.

SECTION – C

Answer **any two** of the following. **Each** question carries **twelve** marks. **(2×12=24)**

7. What is transaction exposure ? How do you manage the transaction exposure ? Explain.

8. The currency exchange rates and interest rates are as follows :

   Current Singapore dollar (S$) spot rate $ 0.76/S$

   1 year Singapore dollar (S$) forward rate $ 0.78/S$

   1 year Singapore dollar (S$) interest rate 6.5%

   1 year U.S. interest rate 8.5%

   In what direction will covered interest arbitrage force the quoted rates to change ? Is there any arbitrage possibilities ? Assume the transaction value is $ 1 million.

9. Miller U.S., the American subsidiary of Miller U.K has current assets of $ 5 million, fixed assets of $ 6 million. Miller has no long term liabilities.

   a) Calculate Miller U.S's translation exposure under all the four translation methods

   b) If the $ is assumed to be the functional currency, and it depreciates from 1 £ to £ 0.8, calculate the translation gain/loss that will be reflected in the CTA account.

   c) Included in the current assets is inventory $ 2.3 million. Assume the historical exchange rates for inventory and fixed assets are £ 0.75 and £ 0.95 and pound is the functional currency. Calculate Miller U.S's translation gain or loss.

SECTION – D

10. Case study (**compulsory**) : **(1×15=15)**

    An exporter is exporting 500 articles at a cost of $ 80 each and importing 500 units of material at 30 €/unit, he incurs other variable expenses of Rs. 40,000 at the time of entering into contract, the exchange rate is Rs. 60/$, at the time of export it is Rs. 58/$. While Rs/€ at the time of order is Rs. 65/€, at the time of export is Rs. 68/€. If the price elasticity of demand is 2, what are the transaction and economic exposure ?

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