IV Semester M.B.A. Degree Examination, July 2017
(2007 – 08 Scheme)
Management
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 foreign exchange risk management ?
   b) What is Multinational Capital Budgeting ?
   c) What is leading and lagging ?
   d) What is exposure netting ?
   e) What do you mean by translational exposure ?
   f) What is marking to market ?
   g) Mention any two challenges of MNC's working capital management.
   h) Find out the bid rate if ask rate is Rs. 60.50/US $ and the bid-ask spread is 1.25%.

SECTION – B

Answer **any three** of the following, **each** question carries **eight** marks : **(3×8=24)**

2. Explain the factors influencing on determination of exchange rate.
3. Distinguish between IFM and FM.
4. Explain the different types of international taxation.
5. On October 5th Newyork quoted the DM was \$0.5876/DM and French Francs was quoted \$ 0.4133/FFr. On this date if Paris was quoting 2.7500 FFr/DM and 5.6875 FFr/\$. What are the incentives for arbitrage ?

P.T.O.

6. Xing Ltd. is the Indian affiliate of a US manufacturer. Xing Ltd. manufactures items which are sold primarily in the US and Europe. Xing Balance Sheet in 000's of Rupees as on March 31st is as follows :

Assets	Rs.	Liabilities	Rs.
Cash	10,000	Accounts payable	5,500
Accounts Receivables	8,500	Short term bank loan	3,500
Inventory	9,000	Long term loan	6,000
Net Plant and Equipment	25,000	Capital stock	25,000
		Retained earnings	12,500
	52,500		**52,500**

Exchange rates for translating the balance sheet into US dollars are :

Rs. 55/$: Historic exchange rate, at which plant and equipment, long term loan and common stock were acquired or issued.

Rs. 60/$ on 31 march exchange rate. This was also the rate at which inventory was acquired. Calculate accounting gain or loss and accounting exposure by current rate method and monetary and non-monetary method.

SECTION – C

Answer **any two** of the following, **each** question carries **twelve** marks : **(2×12=24)**

7. What are depository receipts ? Explain the importance of different types of depository receipts in international financial market.

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

Company	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.

9. From the following data calculate the possibilities of a gain/loss in arbitrage.

   Spot rate FFr 8.00 = 1$

   6 months forward rate FFr 8.0200 = 1$

   Annualised interest rate on 6 months US$ = 5%

   Annualised interest rate on 6 months FFr = 8%.

SECTION – D

10. Case study (**Compulsory**). **(1×15=15)**

    An European importer imports goods worth of 1000 US $ from USA and it has to make payments after 90 days. The importing firm is expecting changes in the exchange rate and it thinks about selling a particular alternative, spot rate € 1.2/ $, 90 days forward rate € 1.05/$. Interest rate on borrowings in Europe and USA is 6% p.a. Interest rate on deposits or investments is 5% p.a.

    In 90 days call option is having a strike price of € 1.07/$ and a premium of € 0.05/$.

    A 90 days put option is having exercise price of € 1.09/$ and a premium of € 0.05/$.

    Spot rate on 90th day rate is € 1.098/$. Suggest the importer which alternative is beneficial ?