



PG – 952

IV Semester M.B.A. Degree Examination, July 2016
(2007-08 Scheme)
MANAGEMENT
F-4 : International Financial Management

Time : 3 Hours

Max. Marks : 75

Instruction : Answer all Sections.

SECTION – A

1. Answer **any six** of the following. **Each** question carries **two** marks. (6×2=12)
- What is interest rate parity ?
 - What is balance of payment ?
 - State any two differences between future and options.
 - Define transaction exposure.
 - What is straddles ?
 - What do you mean by official reserve account ?
 - What is swap points ?
 - Differentiate between speculators and arbitrageurs.

SECTION – B

- Answer **any three** of the following. **Each** question carries **eight** marks. (3×8=24)
- Why is it important to study of International financial management ?
 - Company A, a low-rated firm, desires a fixed-rate, long term loan. A presently has access to floating interest rate funds at a margin of 2.5% over LIBOR. Its direct borrowing cost is 15% in the fixed-rate bond market. In contrast, company B, which prefers a floating-rate loan, has access to fixed-rate funds in the Eurodollar bond market at 12% and floating-rate funds at LIBOR + 1/2%.
 - How can A and B use a swap to advantage ?
 - Suppose they split the cost savings. How much would A pay for its fixed-rate funds ? How much would B pay for its floating-rate funds ?

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4. a) The Danish Kroner is quoted in New York at \$0.16566/Dkr. Spot, \$0.16583/Dkr 30 days forward, \$0.16510/Dkr 90 days forward and \$0.16485/Dkr 180 days forward, calculate the forward discounts or premiums on the Kroner.
- b) Find the one month FR of US \$ if spot rate is ₹ 45 and the forward premium is 12%.
5. 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 ?
6. From the following data, calculate the possibilities of gain/loss in the arbitrage.
- Spot rate of FF₹ 8.2000/\$, 6 months forward rate is 8.2030/\$
- Annualised interest rate on 6 months US \$ = 8%
- Annualised interest rate on 6 months FF₹ = 10%.

SECTION – C

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

7. a) Explain the challenges of multinational working capital management with examples.
- b) What is global cost of capital ? How it different from domestic cost of capital ?
8. RV Ltd. is the Indian affiliate of a US sports manufacturer. RV Ltd. Manufactures items which are sold primarily in the US and Europe.

RV' B/S in (000's) rupees as March 31st is as follows :

Assets		Liabilities	
Cash	12,000	Accounts payable	7,000
Accounts receivable	9,000	Short term bank loan	3,000
Inventory	9,000	Long term loan	8,000
Net plant and equipment	20,000	Capital stock	20,000
		Retained earnings	12,000
	50,000		50,000



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

Rs. 35/\$: Historic exchange rate, at which plant and equipment, long term loan and common stock were acquired or issued.

Rs. 40/\$: March 31st exchange rate. This was also the rate at which inventory was acquired.

Rs. 42/\$: April 1st exchange rate, after devaluation of 20%.

Assuming no change in B/S accounts between March 31st and April 1st calculate accounting gain or loss by the CRM and by monetary/non-monetary method. Explain accounting loss in terms in the value of exposed accounts.

9. An importer imports goods worth £ 62,500. He expects an appreciation of £, so he goes for heading the risks. The currency market has the following data :
- a) Spot rate on the date of contract Rs. 68/£
 - b) 3 months forward rate Rs. 68.50/£
 - c) Strike rate in a 3 months call option Rs. 68.60/£ with 5% premium
 - d) Strike rate in a 3 months put option Rs. 68.80/£ with 5% premium
 - e) Spot rate on the date of payments/maturity Rs. 68.90/£ will he go for a hedge ?
Is so, which option he will select ?

SECTION - D

10. Case study (**compulsory**).

(1×15=15)

A U.K. multinational wants to evaluate the present value of a loan denominated in Australian dollars. It prefers to evaluate the Australian dollar debt using the typical decentralized technique, in which the Australian dollar cash flows are discounted and then converted to U.S. dollars at the prevailing spot rate. The spot exchange rate is currently 1 pound/2.15 A\$. The firm is considering four-year debt in the amount of A\$ 12,500,000, at an interest rate of 25 percent. The loan structure provides for payment of interest and repayment of all principal in one lump sum four years from now. The corporation's tax rate is 34 percent, and the firm will be able to realize all benefits of the tax-related debt shield. The cost of borrowing for the firm in U.S. dollars is 12.5 percent.



The risk-free interest rate in the U.K. is 10 percent and the risk-free parity rate in Australia is 20.5 percent. If the firm decides to use uncovered interest parity to form expectations of future spot exchange rates, calculate the four-year-ahead forecast.

- a) What is the present value of the Australian dollar financing, using the decentralized technique ?
- b) Instead of using the decentralised technique, the firm is considering a centralized technique, in which the Australian dollar cash flow are converted to U.K. pounds and subsequently discounted at the U.K. pound cost of debt. If the firm uses uncovered interest parity in the risk-free deposit markets to forecast future exchange rates, what is the present value of the loan calculated to be ? Explain your reasoning.