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IV Semester M.B.A. (Day) (CBCS) Examination, July - 2019

11031

MANAGEMENT

4.2.2/4.6.2 : International Financial Management

Time : 3 Hours

Max. Marks : 70

SECTION - A

Answer **any five** of the following, each question carries **5** marks. **5x5=25**

1. Distinguish between a forward and a future contract. Which of the two is more popular ? Why ?

2. Explain the purchasing power parity theory and the rationale behind it.

3. Write a note on the developments in the European Monetary union.

4. If exchange rate at the end of 2016-17 is ₹ 66.21/US $ and if the rate of Inflation in India and USA during 2017-18 is 7% and 4% respectively, find

(a) Inflation rate differential between the two countries and

(b) The exchange rate at the end of 2017-18.

5. An exporter has to surrender £ 100.000 to a bank, Rate of £ against ₹ is 97/97.15, the bank charges a commission of 0.25%. If the transit time fixed by RBI is 20 days and the rate of interest charged by the bank is 10%. Find out the net proceeds to be credited to exporters A/c.

6. On August 2^{nd} New York quoted the DM was \$ 0.6875/DM and FFr was quoted \$ 0.5133/FFr. If on this date Paris was quoting 2.7500 FFr per DM and 5.6875 FFr/\$. What are the incentives for Arbitrage ?

7. Grewal U.K., the British subsidiary of strain U.S. has Current Assets of £ 4 million, fixed assets of £ 5 million, the current liabilities of £ 4 million. Grewal has no long term liabilities.

(a) Calculate Grewal UK's translation exposer under all the four translation methods.

(b) If the £ is assumed to be the functional currency and it depreciates from \$ 1.80 to \$ 1.70, calculate the FASB-52 translation gain (loss) that will be reflected in the CTA account.

(c) Included in current assets in inventory of £ 0.9 million. Assume the historical exchange rates for inventory and fixed assets are \$ 1.55 and \$ 1.75 respectively and dollar is the functional currency. Calculate Grewal UK's translation gain or loss.

SECTION - B

Answer **any three** of the following, each question carries **10** marks. **3x10=30**

8. Explain the important Foreign exchange Risk hedging strategies.

9. Explain the importance of International Monetary system and its phases.

10. Company A and B have been offered the following rates p.a. on a \$ 10 million five year loan :

	Fixed rate	Floating rate
A	13%	LIBOR + 0.2%
B	14.4%	LIBOR + 0.7%

Company A requires a floating rate loan. Company B requires a fixed rate loan. Design a swap that will net a bank acting as an intermediary 0.1% p.a. and will appear equally attractive to both companies.

11. An UK firm purchases £ 5,000 worth of perfume (€ 5,650) from a European firm. The UK Distributor must make the payments in 90 days in Euros. The following quotation and expectations exist for Euros.

Present SR £ 0.7692.

90 days FR £ 0.7892

UK interest rate 15%

Europe interest rate 10%

Your expectation of the SR 90 days hence £ 0.7992.

(a) What is the premium or discount on the Forward Euro's ? What is the IRD between UK and Europe ? Is there an incentive for CIA ?

(b) If there is a CIA, how can an arbitrageur take advantage of the situation ? Assume (i) the arbitrageur is willing to borrow £ 5,000 or € 5,650 (ii) There are no transaction cost.

(c) If transaction costs are £ 50, would an opportunity still exist for CIA ?

SECTION - C

(Compulsory)

1x15=15

12. Case Study

An Indian importer imports goods worth \$ 42,500. He expects an appreciation of US \$, so he goes for hedging the risk. The currency market has the following data :

(a) Spot rate on the date of the contract ₹ 62.00/\$

(b) Three-month forward rate ₹ 62.50/\$

(c) Strike rate in a three-month call option ₹ 62.60/\$ with 5% premium

(d) Strike rate in a three month put option ₹ 62.80/\$ with 5% premium

(e) Spot rate on the date of payment/maturity ₹ 62.90/\$

(f) Interest rate on borrowings in India and USA is 6% p.a.

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

Will he go for a hedge ? If so, which of the options he will select ?

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