Q.P. Code : 61343

Fourth Semester M.B.A.(Day) Degree Examination, September/October 2020

(CBCS Scheme – 2014-15 onwards)

Management

Paper 4.2.2/4.6.2 – INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours] *[Max. Marks : 70*

SECTION – A

Answer any **FIVE** questions from the following. Each question carries **5** marks :
(5 × 5 = 25)

1. List and briefly explain the various exchange rate regimes.

2. What is 'Balance of Payments'? Explain its relationship with the different economic variables.

3. Compare and contrast Domestic and Off shore financial markets.

4. Farm products is the Canadian affiliate of a US manufacturing company. Its B/S in thousands of Canadian $, for January 1 2018 is shown below. The January 1 exchange rate was C$ 1.75/$.

Assets	C$.	Liabilities and Net worth	C$
Cash	600,000	Accounts payable	350,000
Accounts Receivable	450,000	Short term Bank loan	150,000
Inventory	450,000	Long term loan	400,000
Net plant and equipment	1,000,000	Capital stock	1,000,000
		Retained earnings	600,000
	2,500,000		2,500,000

Determine Farm Products accounting exposure on Jan 2019, using Current rate method and Monetary and Non-monetary method.

Calculate farm products contribution to its parent's accounting loss if the exchange rate on December 31, 2018 was C$1.95 per $. Assume all accounts remain as they were at the beginning of the year.

5. On June 05, 2020, a Bank quotes the following :

Spot Exchange Rate (US $1) INR 66.5525/INR 67.5945

2 months' swap points 70/90

3 months' swap points 160/186

In a spot transaction, delivery is made after two days.

Assume 1 swap point = 0.0001

You are required to :

(a) Determine foreign exchange rate for two months and three months.

(b) Compute the annual rate of premium/discount of US$ on INR, on an average rate.

(c) What do the above quotations imply in respect of the term structure of the interest rates in the USA and India?

6. The US Dollar is selling in India at Rs.72.50. If the interest rate for a 3-month borrowing in India is 6% per annum and the corresponding rate in USA is 2.75%.

(a) Do you expect United States Dollar to be at a premium or at a discount in the Indian forward market?

(b) What is the expected 3-months forward rate for United States Dollar in India?

(c) What will be the rate of forward premium or discount?

7. On April 25th you have bought June Future on GBP on a price of 1.5445$, the contract size is 80,000£. The initial margin is 5% for the next 3 days. The closing price of GBP are 1.5449$, 1.5446$ and 1.5410$. Determine the marking to margin profit/loss for the above 03 days and the balance in the margin account.

SECTION – B

Answer any **THREE** questions from the following. Each question carries **10** marks :

(3 × 10 = 30)

8. Explain in detail the structure of Foreign Exchange Market. State and explain the different types of transactions and settlement dates in Foreign Exchange Markets.

9. An Exporter is exporting 100 articles at a cost of 80$ each and importing 100 units of materials at 20€/unit, he incurs other variable expenses of Rs.35,000 at the time of entering into contract, the exchange rate is Rs.71.5/$ at the time of export it is Rs.70/$ while Rs./€ at the time of order is Rs.60/€, while at the time of export is Rs.63/€. If the price elasticity of goods is 1.5, what are the transactions and economic exposure?

10. Companies A and B has been offered the following rates p.a. on \$20 million five year loan :

	Fixed Rate	Floating Rate
Company A	15.0%	LIBOR + 0.3%
Company B	16.5%	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% p.a. and that will appear equally attractive to both companies.

11. Darshini Limited has imported 5000 bottles of Shampoo at landed cost in Mumbai of US \$ 20 each. The company has the choice for paying for the goods immediately or in 3-months' time. It has a clean overdraft limit where 14% p.a. rate of interest is charged.

Calculate which of the following method would be cheaper to Gibralter Limited :

(a) Pay in 3-months' time with interest @ 10% and cover risk forward for 3 months.

(b) Settle now at a current spot rate and pay interest of the overdraft for 3 months.

The rates are as follows :

Mumbai Rs./\$ spot : 70.25 – 70.55

3 months swap : 35/25

SECTION – C

This is a compulsory question carrying **15** marks :

12. Case Study : **(1 × 15 = 15)**

Global Limited, an Indian company will need \$5,00,000 in 90 days. The following information is given :

Spot rate \$1 = Rs.69.50

90 days' forward rate of \$1 as of today = Rs. 71.50

Interest rates are as follows :

Particulars	US	India
90 days deposit rate	1.25%	2%
90 days borrowing rate	2.00%	3%

Compare the strategies of money market hedge vs. forward hedging and compute the net advantage. Present calculations up to two decimal places.