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14MBAFM410

**Fourth Semester MBA Degree Examination, Dec.2017/Jan.2018**  
**International Financial Management**

Time: 3 hrs.

Max. Marks:100

**SECTION - A***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 What do you mean by SDR? (03 Marks)
- 2 What is Current Account generally composed of? (03 Marks)
- 3 What is SWIFT? (03 Marks)
- 4 Explain Multilateral Netting. (03 Marks)
- 5 What is International Capital Budgeting? (03 Marks)
- 6 Define Translation Exposure. (03 Marks)
- 7 Suppose the exchange rate between US \$ and FFr was 1 \$ = FFr 5.9 and exchange rate between US \$ British £ was 1£, \$ 1.50. Calculate the exchange rate between FFr and £. (03 Marks)

**SECTION - B***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Differentiate between Spot and Forward Market. (07 Marks)
- 2 Discuss the distinguishing features of International Finance. (07 Marks)
- 3 Write a note on the following : (07 Marks)
  - a. Global bond.
  - b. American depository receipt.
  - c. Zero coupon bonds.
- 4 Why did the Bretton Woods agreement collapse? (07 Marks)
- 5 You are required to find the overall balance showing clearly all the sub-balances from the following data :
  - a. Unilever of US invests in India Rs 3,00,000 to modernize its Indian subsidiary.
  - b. A tourists from Egypt buys souvenirs worth Rs 3000 to carry with him. He also pays hotel and travel bills of Rs 5000 to Delhi tourist agency.
  - c. The Indian subsidiary of Unilever remits, as usual, Rs 5000 as dividends to its parent company in the USA.
  - d. The Indian subsidiary of Unilever sells a part of its production in other Asian Countries for Rs 1,00,000.
  - e. The Indian subsidiary borrows a sum of Rs 2,00,000 (to be paid back in a year's time) from the Germany money market to resolve its urgent liquidity problem.
  - f. An Indian company buys a machine for Rs 1,00,000 from Japan are 60% payment is made immediately ; the remaining amount is to be paid after 3 years.
  - g. An Indian subsidiary of a French Company borrows Rs 50,000 from the Indian public to invest in the modernization program. (07 Marks)



- 6 The US inflation rate is expected to average about 4% annually while Indian interest rate is expected to average about 12% annually. If the current spot rate for Rupee is \$ 0.0285, what is the expected spot rate in two years? (07 Marks)
- 7 Convert the following rates into outright rates and calculate their spread :  
 Spot rate Rs/\$ 43.6300-25  
 1 month forward 20/25  
 3 month forward 25/35  
 6 month forward 30/40 (07 Marks)

### SECTION - C

*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Set out below is a table of cross rates :

|           | Deutsch Mark | Dollar | French Franc | Pound sterling |
|-----------|--------------|--------|--------------|----------------|
| Frankfurt | -            | 2.2800 | 0.4810       | 4.0205         |
| New York  | 0.4400       | -      | 0.2100       | 2.800          |
| Paris     | 2.0900       | 4.8300 | -            | 8.3400         |
| London    | 4.0100       | 1.8700 | 7.4200       | -              |

Note that for Frankfurt, New York and Paris, all quotes are direct for London all quotes are indirect. If all the above are available at the same instant in time and assuming no transaction costs, how might a trader take advantage of the situation. (10 Marks)

- 2 Exchange rates : Can \$ 0.665 per DM (spot).  
 Can \$ 0.670 per DM ( 3 month forward).  
 Interest rates : DM 7% p.a.  
 Can \$ 9% p.a.  
 Calculate the arbitrage gain possible from the above data. (10 Marks)
- 3 From the following show how opportunity of triangular arbitrage exist, if you have \$ 10000 (MYR = Ringit of Myanmar). (10 Marks)

| Quote                 | Bid Rate | Ask Rate |
|-----------------------|----------|----------|
| Value of £ in US \$   | \$ 1.600 | \$ 1.610 |
| Value of MYR in US \$ | \$ 0.200 | \$ 0.201 |
| Value of £ in MYR     | MYR 8.10 | MYR 8.20 |

- 4 The following information is available for the US and Europe :

| Particular             | US | Europe  |
|------------------------|----|---------|
| Nominal Interest Rates | 4% | 6%      |
| Expected Inflation     | 2% | 5%      |
| Spot Rate              | -  | \$ 1.13 |
| One year forward rate  | -  | \$ 1.10 |

- i) Does interest rate parity hold?  
 ii) According to PPP, what is the expected spot rate of the € in one year.  
 iii) According to IFE, what is the expected sport rate of the € in one year. (10 Marks)
- 5 What are the methods used to invest internationally? (10 Marks)



- 6 What are the various 'exchange rate regimes' according to IMF? (10 Marks)
- 7 Company A & B have been offered the following rates per annum on a \$ 20 million five year loan.

| Company | Rate  | Floating Rate  |
|---------|-------|----------------|
| A       | 12.0% | (1 BOR + 0.1%) |
| B       | 13.4% | (1 BOR + 0.6%) |

A requires a floaty rate loan and B requires fixed rate. Design a swap that will neat a bank acting as intermediary, 0.1% p.a and equally attractive to both companies. Clearly explain the cash flow of both companies and the bank. (10 Marks)

**SECTION - D**  
**CASE STUDY – [ Compulsory ]**

New Haven a dealer based in Europe, is owned by a MNC Inc. of US. Given below is New Haven Balance sheet at the current exchange rate of \$ 1.50/€

|   | Value in €      | Value @ \$ 1.50/€ |
|---|-----------------|-------------------|
| <b>Assets</b>                           |                 |                   |
| Cash                                    | 50000           | 75000             |
| Accounts receivable                     | 30000           | 45000             |
| Inventory                               | 20000           | 30000             |
| Plant & Equipment                       | 600000          | 900000            |
| <b>Total Assets</b>                     | <b>7,00,000</b> | <b>10,50,000</b>  |
| <b>Liabilities :</b>                    |                 |                   |
| Accounts payable                        | 150000          | 225000            |
| Short term Debt                         | 60000           | 90000             |
| Long term Debt                          | 410000          | 615000            |
| <b>Total liabilities &amp; Networth</b> | <b>700000</b>   | <b>10,50,000</b>  |

- i) Suppose the Euro depreciates by 25%, identify the impact of a 25% depreciation of the Euro on New Havens consolidated balance sheet under each Accounting method.
- ii) Calculate the Company's exposed assets expressed liabilities and Net exposed assets under each Accounting translation method. (20 Marks)

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