

CBCS SCHEME

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18MBAFM404

Fourth Semester MBA Degree Examination, Jan./Feb. 2021 International Financial Management

Time: 3 hrs.

Max. Marks: 100

Note: 1. Answer any **FOUR** full questions from Q.No.1 to Q.No.7.
2. Question No. 8 is compulsory.

- 1 a. What is Direct and Indirect Quotation? (03 Marks)
b. Explain the various International Business Methods. (07 Marks)
c. Discuss different types of International Bonds. (10 Marks)
- 2 a. What does corresponding bank mean? (03 Marks)
b. Write short notes on:
(i) Unilateral transfer payments
(ii) Current account
(iii) Capital account
(iv) Trade balance (07 Marks)
c. Convert the following rates into outright rates and indicate their spread:
- | | Spot | 1 - Month | 3 - Month | 6 - Month |
|-------|------------|-----------|-----------|-----------|
| Rs/\$ | 35.6300/25 | 20/25 | 25/35 | 30/40 |
- (10 Marks)
- 3 a. Define translation exposure. (03 Marks)
b. Explain various factors affecting capital budgeting decisions. (07 Marks)
c. Briefly explain the objective and functions of international monetary fund. (10 Marks)
- 4 a. What is zero coupon bond? (03 Marks)
b. Who are the major participants of FOREX market? (07 Marks)
c. Show the Arbitrage Gains possibility from the data given below:
Rs.55,500 = £1 in London
Rs.35,625 = \$1 in New Delhi
\$1.5820 = £1 in New York (10 Marks)
- 5 a. Explain ADR and GDR. (03 Marks)
b. What types of exchange rate risk/exposure a multinational enterprise subjected to? (07 Marks)
c. Given the following data:
Spot rate: Rs.35.0020 = \$1
6 months forward rate: Rs.35.9010 = \$1
Annualized interest rate on 6 months rupees = 12% p.a.
Annualize interest rate on 6 months dollars = 7% p.a.
Workout the arbitrage possibilities. (10 Marks)
- 6 a. What is "SWIFT" Mechanism? (03 Marks)
b. Write a short note on purchasing power parity with suitable example. (07 Marks)
c. In January, the one-year interest rate is 4 percent on deutschmark and 6 percent on Pound Sterling. The spot exchange rate is £0.4322 = \$1. If the future spot rate is likely to rise to £ 0.4700, What would happen to the UK interest rate? (10 Marks)

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

- 7 a. Explain transfer pricing. (03 Marks)
 b. Assume company ABC is a subsidiary of an American Company. The following data reflects the balance sheet of an ABC Ltd. (in Indian Rupees)

Assets		Liabilities	
Fixed assets	2,00,000	Equity	1,40,000
Stocks	50,000	Long term debt	80,000
Receivables	30,000	Short term debt	70,000
Cash	10,000		
Total	2,90,000		2,90,000

Consider:

(i) Historical rate of interest Rs.35 = US \$1

(ii) Exchange rate at closing day of the accounting year Rs.36 = US \$1

By using monetary/non-monetary method, evaluate the translation (consolidation) exposure. (07 Marks)

- c. Company AKR wishes to borrow US Dollar at a fixed rate of interest, while company RAK wishes to borrow Japanese Yen at fixed rate of interest. The amount required by the two company roughly the same.

Company	Yen	Dollar
AKR	4.0%	8.6%
RAK	5.5%	9.0%

Design a swap by considering bank acting as intermediate with charges of 50 basis points per annum makes the swap equally attracted to the two companies. (10 Marks)

8 CASE STUDY (compulsory)

An Indian company C & Co. imports equipments worth \$1.0 million and is to pay after 3 months. On the day of the contract, the rates are:

Spot: Rs.35.00/\$

3 months forward: Rs.36.25/\$

- a. There is an anticipation of a further fall of rupee. What can C & Co. do? (05 Marks)
 b. What is the gain/loss, if the rupee had fallen to Rs.37.10/\$ and C & Co. Ltd has not covered itself in the forward market? (05 Marks)
 c. What should C & Co. do if it knows with a high probability that in 3 months, dollar will settle at Rs.36.00/\$? (05 Marks)
 d. Differentiate between forward and futures contract. (05 Marks)
