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.

CBCS SCHEME

USN | | | | | | | | | |

20MBAFM406

Fourth Semester MBA Degree Examination, Jan./Feb. 2023
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 International Finance? **(03 Marks)**

b. Discuss the factors affecting the flow of FDI and FPI into a Country. **(07 Marks)**

c. Prepare BOP statement for India with the help of following information. Also find current account balance, Capital account balance and overall balance.

i) India export goods worth Rs 50,000/-
ii) Oil Imports worth Rs 3,00,000 from Gulf Country.
iii) Expenditure of Foreign Tourists in India Rs 15,000/-.
iv) Software exports to USA from India Rs 1,00,000/-.
v) US Company invests in India Rs 2,00,000/-.
vi) Indians buy US stocks Rs 50,000/-.
vii) Dividends received Rs 5,000/-. **(10 Marks)**

2 a. Differentiate between Spot and Forward rate. **(03 Marks)**

b. Who are the major participants of forex market? Briefly explain. **(07 Marks)**

c. Convert the following quotes into outright quotes and find out the spread :

	Spot	1 M - forward	3 M - forward	6 – M - forward
USD / INR	Rs 68.50 – 00/40	35/50	50/80	65/45

(10 Marks)

3 a. Define BOP. **(03 Marks)**

b. Briefly explain the various methods of International business. **(07 Marks)**

c. From the following data, calculate the possibilities of a gain or loss in arbitrage :
Spot rate FFrs 6.0000 = \$ 1 ; 6 months forward rate is FFrs 6.0020 = \$ 1 ;
Annualised Interest rate on 6 months in USA 5% ;
Annualised Interest rate on 6 months in France is 8%.
A Company has to make a US \$ 1 million payment in 3 months time. **(10 Marks)**

4 a. One month USD/INR → 60.1275 – 60.1375 ;
One month USD / Euro → 1.3590 – 1.3610
Find the Bid & Ask rate between Euro / INR. **(03 Marks)**

b. Outline the evolution of International Monetary System. **(07 Marks)**

c. Company A and B have been offered the following rates per annum on a \$ 20 million five year loan.

Company	Fixed Rate	Floating Rate
A	12%	LIBOR + 0.1%
B	13.4%	LIBOR + 0.6%

A requires a floating rate loan and B requires fixed rates. Design a swap that will net 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)**

5 a. A foreign trader assesses the euro exchange rate 3 month hence as follows. Compute the €/\$ exchange rate. **(03 Marks)**

Probability	0.25	0.50	0.25
€ / \$	1.11	1.13	1.15

b. Write a short note on "Correspondent Bank". **(07 Marks)**

c. The direct quote in Tokyo for Peso is given as ¥ 28.8358/MP (Bid) and ¥ 28.8725/MP (Ask). In Mexico city 0.04418/0.04488. Calculate Bid – Ask spread as percentage of Bid price from the Japanese & from Mexican perspective. **(10 Marks)**

6 a. What is Plain Vanilla Swap? **(03 Marks)**

b. Explain the rationale behind purchasing power parity. **(07 Marks)**

c. Modern Pharma Ltd., an Indian based MNC is evaluating an overseas Investment proposal. The project requires an initial outlay of US \$ 100 million and it is expected to give cash flows over a life of four years.

Years	1	2	3	4
CF (\$ in million)	30	40	50	60

The current spot exchange rate is Rs 45/- for US \$, R_f in India is 11% and in US 6%. The Modern Pharma requires a rupee return of 15% on the above project. Calculate the NPV of project under home currency. Exchange Rate for

Year	1	2	3	4
Exchange Rate (per Dollar)	47.12	49.32	51.64	54.07

(10 Marks)

7 a. What is SDR? **(03 Marks)**

b. Explain the methods used to cover Interest rate risk. **(07 Marks)**

c. Farm product is Canadian affiliate of a US manufacturing company. Its balance sheet in thousands of Canadian dollars , from Jan. 1 2021 is shown below. The January 1 2021 exchange rate was C \$ 1.6/\$.

i) Determine farm products accounting expenses on Jan 1, 2021 using Current Rate method / Monetary / Non – monetary method.

ii) Calculate farm product contribution to its parent accounting loss if the exchange rate on Dec 31, 2021 was C \$ 1.8 per \$. Assume all accounts remain as they were at the beginning of the year.

Farm product B/S (thousands of C \$)

Liabilities	C \$	Assets	C \$
Capital	6,20,000	Net plant & equipment	2,00,000
Long term debt	1,60,000	Inventory	3,20,000
Current liabilities	60,000	Account receivables	2,20,000
		Cash	1,00,000
Total	8,40,000	Total	8,40,000

(10 Marks)

8 <u>**CASE STUDY**</u> **(Compulsory) :**

DC corporation is a US based software consulting firm, specializing in software for several fortune 500 clients. It has offices in India , the UK, Europe and Australia. In 2021, DC corporation required £ 1,00,000 in 180 days. Suppose spot rate \$ 1.50 / £. 180 day forward rate is \$ 1.48 / £.

Interest rate were as follows :

	UK	US
180 day deposit rate	4.5%	4.5%
180 day borrowing rate	5.1%	5.1%

The Company has following information available to it :

i) A 180 day call option is having a strike price of \$1.49/£ and premium of \$ 0.03/£.

ii) A 180 day put option is having an exercise price of \$ 1.50/£ and a premium of \$0.02/£.

iii) Spot rate on the 180^{th} day is \$1.46/£.

Given the above data, examine the following alternatives for constructional hedge as applied to payables.

i) Hedging in the forward market ii) Hedging in money market

iii) Hedging in the currency options market. **(20 Marks)**

*****