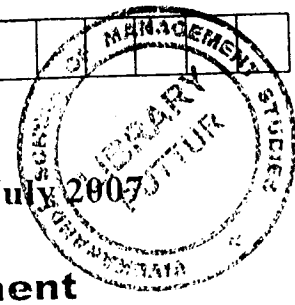


05MBAFM426/IB466

USN

--	--	--	--	--	--	--	--	--	--

NEW SCHEME



20

Fourth Semester MBA Degree Examination, July 2007
Business Administration
International Financial Management

[Max. Marks:100

Time: 3 hrs.]

Note : Answer any FIVE full questions, including Q.No. 8. (compulsory).

1. a. You see the following quotation on the screen EUR | USD spot rate 0.8710|15.
Work out the reciprocal quota USD|EUR. (03 Marks)
- b. How is International Financial Management different from Domestic Financial Management? (07 Marks)
- c. What are tools available to a MNC for managing interest rate exposure? (10 Marks)
2. a. What do you mean by letter of credit? (03 Marks)
- b. Briefly explain the various internal hedging techniques for managing foreign exchange risk. (07 Marks)
- c. Company AKR wishes to borrow USD at fixed rate. Company RAK wishes to borrow Japanese Yen at a fixed rate. The amount required by these two companies is same at the current exchange rate. The Companies are quoted the following rates on interest.

	Yen	USD
AKR	4 %	8.6 %
RAK	5.5 %	9.0 %

Design a swap that will net a bank, acting as intermediary 50 basis points p.a. Make the swap equally attractive to both the companies. The foreign exchange risk is assumed by the bank. Also show the diagram. (10 Marks)

3. a. Why is Balance of payments statistics important for a country? (03 Marks)
- b. Briefly explain the techniques to optimize the cash flows for a MNC. (07 Marks)
- c. Distinguish between FDI and FPI (Foreign Portfolio Investment). Why do firms invest overseas in the form of FDI? (10 Marks)
4. a. Why is country risk analysis important to MNC? (03 Marks)
- b. From the following show the possibility of triangular arbitrage opportunity if you start with \$ 10,000. (07 Marks)

Currency Quotations	Bid rate	Ask rate
Value of £ in USD	\$ 1.600	\$ 1.610
Value of MYR (Ringgit) in USD	\$ 0.200	\$ 0.201
Value of £ in MYR	MYR 8.10	MYR 8.20

- c. What do you mean by translation exposure? Briefly explain the four methods of translation exposure. (10 Marks)
5. a. What do you understand by 'free float' and 'dirty float'? (03 Marks)

Contd...2

b. On May 29 you have bought July futures on GBP at a price of \$ 1.4450. The contract size is 62500 GBP. The initial margin is 5%. For the next three days the closing price of GBP are \$ 1.4490, \$ 1.4460 and \$ 1.4410. Determine MTM profit or loss for the above 3 days and the balance in the margin account. (07 Marks)

c. Write short notes on the following :

- i) American Depository Receipt iii) Purchasing Power Parity theory.
- ii) Functions of IMF iv) Nostro, vostro and Loro accounts (10 Marks)

6 a. It is often said that depreciation of the home currency may not increase the supply of foreign exchange. Under what conditions could this happen? (03 Marks)

b. Distinguish between forward and future contract. (07 Marks)

c. What do you mean by Economical Exposure? Give the marketing and production management strategies of managing economic exposure. (10 Marks)

7 a. Calculate 3 month forward rate, if the spot rate is Rs 42|US \$. Interest rate in India is 6% p.a. and in USA is 3% p.a. (03 Marks)

b. Explain with the help of an example covered interest arbitrage (CIA). (07 Marks)

c. A US MNC is planning to install a manufacturing unit to produce 5,00,000 units of an automobile component in India. The plant would cost Rs 50 millions. The plant is expected to have a useful life of 5 years with Rs 10 million as salvage value. The MNC would follow straight line method of depreciation. The firm also needs Rs 5 million as working capital. Selling price and variable cost per unit will be Rs 70 and Rs 20 respectively. Additional fixed cost per annum are estimated at Rs 2 million. The MNC will be subjected to 40% tax rate in India and required rate of return is 15%.

It is forecasted that the rupee will depreciate to US \$ @ 3% p.a., with the initial exchange rate of Rs 48 | US \$. Accordingly the forecasted exchange rates for the next 5 years are 49.44, 50.92, 52.45, 54.02, 55.64 respectively. Advise the MNC regarding the feasibility of the proposal. (10 Marks)

8 **CASE STUDY :**

DAS corporation is a US based software consulting firm specializing in financial software for several fortune 500 clients. It has offices in India, Europe and Australia. In 2006, DAS required £ 100,000 in 180 days and had many options to hedge the risk.

Its analysts developed the following information, which was used to assess the alternative solutions. Current spot rate of GBP \$ 1.50. 180 days forward rate of GBP as of today is \$ 1.48.

A call option on £ that expires in 180 days has an exercise price of \$ 1.49 and a premium of \$ 0.03. A put option on £ that expires in 180 days has an exercise price of \$ 1.50 and a premium of \$ 0.02. Interest rates are as below

	UK	USA
180 days deposit rate	4.5 %	4.5 %
180 days borrowing rate	5.1 %	5.1 %

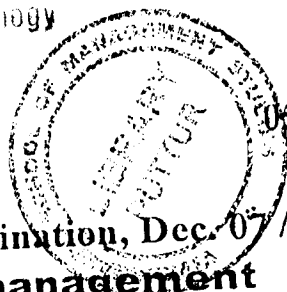
The future spot rates in 180 days were forecasted as follows :

Possible Outcome	Probability
\$ 1.44	0.20
\$ 1.46	0.60
\$ 1.53	0.20

Analyze the position of the company when

- a. It is unhedged
- b. Hedged with forward contract
- c. Hedged with buying a call option
- d. Hedged with selling a put option
- e. Hedged with money market hedge

(20 Marks)



USN

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Fourth Semester MBA Degree Examination, Dec. 07 / Jan. 08
International financial management

Max. Marks: 100

Time: 3 hrs.

Note : 1. Answer any four full questions out of questions 1 to 7.
2. Question 8 is compulsory.
3. Show working notes wherever required.

(2)

- 1 a. What is balance of payment? (03 Marks)
- b. Explain the concept of disequilibrium in balance of payment. How does disequilibrium arise? How can it be restored? (07 Marks)
- c. What are the objectives and functions of IMF? Critically evaluate the achievements of IMF? (10 Marks)

- 2 a. What is floating exchange rate system? (03 Marks)
- b. Write short notes on : (07 Marks)
 - i) Current account
 - ii) Capital account
 - iii) Unilateral transfer payments.
- c. You are required to find out the overall balance, showing clearly all the sub balances from the following data : (10 Marks)
 - i) Ford corporation of USA invests in India Rs. 3,00,000 to modernize its Indian subsidiary.
 - ii) A tourist from Egypt buys souvenirs worth Rs. 3,000 to carry with him.
 - iii) The Indian subsidiary of Ford Corporation remits Rs. 5,000 as dividends to its parent company in the USA.
 - iv) A tourist from England pays hotel and travel bills of Rs. 5,000 to Delhi tourist agency.
 - v) The Indian subsidiary of Ford corporation sells a part of its production in other Asian countries for Rs. 1,00,000.
 - vi) The Indian subsidiary borrows a sum of Rs. 2,00,000 (to be paid back in a year's time) from German money market.
 - vii) An Indian company buys a machine for Rs. 1,00,000 from Japan and 60 percent payment is made immediately; the remaining amount is to be paid after 5 years.
 - viii) An Indian subsidiary of a German company borrows Rs. 50,000 from the Indian public to invest in its modernization programme. (03 Marks)

- 3 a. What is interest arbitrage?
- b. Given the following data :
 - Spot rate : Rs. 35.0020 = \$1
 - 6 month forward rate : Rs. 35.9010 = \$1
 - Annualized interest rate on 6 months rupee : 12%
 - Annualized interest rate on 6 months dollar : 7%
 Assume a borrowing of Rs. 1,000 at 12% for 6 months. Work out the arbitrage possibilities. (07 Marks)
- c. Convert the following rates into outright rates and indicate their spreads : (10 Marks)

	Spot	1 month	3 months	6 months
Rs. / \$	35.6300 / 25	20 / 25	25 / 35	30 / 40
Rs. / £	55.2200 / 35	40 / 30	50 / 35	55 / 42

- 4 a. Distinguish between spot and future market. (03 Marks)
b. Critically evaluate purchasing power parity theory. (07 Marks)
c. If the \$: Yen spot rate is \$ 1 = Yen 110 and interest rates in Tokyo and New York are 3 and 4.5 percent respectively, what is the expected dollar yen exchange rate one year hence? (10 Marks)
- 5 a. What is leads and lags? (03 Marks)
b. Explain the techniques of managing transaction exposure. (07 Marks)
c. A UK importer has to pay \$ 1,00,000 in a month's time. He fears an appreciation of the dollar. What can he do with the knowledge of the following data?
1-month interest rate : US \$: 4 percent
UK £ : 5 percent
Spot rate : \$ 1.5537 / £ (10 Marks)
- 6 a. How do you calculate premium or discount of a currency in the forward market? (03 Marks)
b. What are the different methods of international capital budgeting? Discuss. (07 Marks)
c. A company will need to buy after 4 months a forward rate agreement (FRA) from a bank to borrow for 3 months. The 4 / 7 FRA is quoted at 6.5. What will the company do if after 4 months, the rate : (Assume that borrowing is planned for \$ 10,00,000)
i) Rises to 7 percent
ii) Falls to 6 percent
iii) Remains at 6.5 percent. (10 Marks)
- 7 a. What do you mean by foreign portfolio investment? (03 Marks)
b. Discuss about international cash management in a multinational group. (07 Marks)
c. Why do firms become multinational? In this context explain various reasons why firms invest abroad? (10 Marks)
- 8 Case study :
An American firm purchases \$ 4,000 worth of perfume (FF 20,000) from a French company. The American distributor must make the payment in 90 days in French Francs. The following quotation and expectations exist for the FF.
Present spot rate \$ 0.2000
90 days forward rate 0.2200
US interest rate 15%
French interest rate 10%
Your expectation of the spot rate 90 days hence 0.2400.
i) What is the premium or discount on the forward French Francs?
ii) What is the interest differential between US and France?
iii) Is there an incentive for covered interest arbitrage?
iv) If there is a covered interest arbitrage, how can an arbitrageur take advantage of the situation? Assume :
1) The arbitrageur is willing to borrow \$ 4,000 or FF 20,000 and
2) There are no transaction costs.
v) If transaction costs are \$ 50, would an opportunity still exist for covered interest arbitrage?

(20 Marks)

USN

--	--	--	--	--	--	--	--	--	--

Fourth Semester MBA Degree Examination, June-July 2009
International Financial Management

Time: 3 hrs.

Max. Marks:100

Note: Answer any FOUR questions from Q.No.1 to Q.No.7, Q.No.8 is compulsory.

- 1 a. State the economic factors that affect a country's current account balance. (03 Marks)
- b. Explain the significance of international financial management. (07 Marks)
- c. Explain the objectives and functioning of the International Monetary Fund. (10 Marks)
- 2 a. How can government restrictions affect international payments among countries? (03 Marks)
- b. How is International Financial management different from Domestic Financial Managements? (07 Marks)
- c. Distinguish between foreign direct investment and portfolio investment. Why do firms invest overseas in the form of foreign direct investment? (10 Marks)
- 3 a. What is cross exchange rate? State the value of peso in Canadian dollars if the peso is worth \$.07 and the Canadian dollar is worth \$.70. (03 Marks)
- b. Two managers of Marshall, Inc, assessed a proposed project in Jamaica. Each manager used exactly the same estimates of the earnings to be generated by the project as these estimates were provided by other employees. The managers agree on proportion of funds to be remitted each year, the life of the project and the discount rate to be applied. Both manager also assessed the project from the u.s. parent's perspective Nevertheless, one manager determined that this project had a large N.P.V., while the other manager determined that the project had a negative N.P.V. Explain the possible reasons for such difference. (07 Marks)
- c. Explain various political risk factors a multinational corporation is exposed to. How can country risk analysis help an MNC in this regard? (10 Marks)
- 4 a. State the factors that influence exchange rates. (03 Marks)
- b. An euro was worth \$1.05 on 1-1-2003 and \$ 1.26 as on 1-1-2004. Assume that a hotel in Europe charged 100 euros for a room on these dates.
 - i) How much does it actually cost a u.s. tourist visiting Europe on these days?
 - ii) How much his cost in \$ was more during 2004?
 - iii) How much Europeans who visited u.s. on these days would have paid for a hotel in u.s?
 - iv) What is the status of euro vis-à-vis dollar in terms of value? (07 Marks)
- c. Chicago Bank expects the exchange rate of the New Zealand dollar (NZ\$) to appreciate from its present level of \$.50 to \$.52 in 30 days. The following inter bank lending and borrowing rates (annualized) exist.

Currency	Lending Rate	Borrowing Rate
u.s. \$	6.72%	7.20%
New Zealand \$ (NZ \$)	6.48%	6.96%

Chicago Bank is able to borrow \$ 20 million on a short – term basis from other banks. How could Chicago Bank attempt to capitalize on its expectations without using deposited funds? Estimate the profits that could be generated from this strategy. (10 Marks)

- 5 a. What are the reasons for central banks intervening in the foreign exchange market? (03 Marks)
- b. Distinguish between forward and future contract. (07 Marks)
- c. An u.s. Parent Company (PC) has a Subsidiary Company (SC) in Australia. SC sells mobile homes to local customers in Australia, who buy the homes mostly using borrowed funds from local banks. SC purchases all of its materials from Hong Kong. The Hong Kong dollar is tied to the u.s. dollar. The SC borrowed funds from P.C. and must pay the parent \$ 100,000 in interest in each month. Australia has just raised its interest rates in order to boost the value of its currency. The Australian dollar appreciates against the dollar as a result. Explain whether these actions would increase, reduce or have no effect on.

- i) The volume of sales of SC in Australia (measured in A\$).
 - ii) The cost of purchase of materials to SC (measured in A \$).
 - iii) The cost of SC of making interest payments to the PC (Measured in A \$). (10 Marks)
- 6 a. What is the SWIFT mechanism in international financial markets? (03 Marks)
- b. The following information is supplied to you.

	<u>Blue Bank</u>	<u>Yellow Bank</u>
Bid price of NZ \$	\$. 401	\$. 398
Ask price of NZ \$	\$. 404	\$. 400

Given this information, is locational arbitrage possible? If so, compute the profit from this arbitrage if you had \$ 1,000,000 to use. What market forces would occur to eliminate any further possibilities of locational arbitrage? (07 Marks)

- c. The following information is available for the united states and Europe.

	u.s.	Europe
Nominal interest rates	4%	6%
Expected inflation	2%	5%
Spot rate	-	\$ 1.13
One year forward rate	-	\$ 1.10

- i) Does the Interest Rate parity hold?
 - ii) According to purchasing power parity, what is expected spot rate of the euro in one year?
 - iii) According to International Fisher equation, what is the expected spot rate of the euro in one year?
 - iv) Reconcile your answers to parts (i) and (iii). (10 Marks)
- 7 a. Define exposure and list the types of exposure. (03 Marks)
- b. Explain the concept of disequilibrium in BOP. How does it arise? How can it be restored? (07 Marks)
- c. The following information is supplied to you.

Spot rate of Canadian dollar	\$. 80
90 – day forward rate of Canadian dollar	\$. 79
90 – day Canadian interest rate	4%
90 – day u.s. interest rate	2.5%

Given this information, what would be the yield (percentage return) to a u.s. investor who used covered interest arbitrage, who invested \$ 1000,000. What market forces would occur to eliminate any further possibilities of covered interest arbitrage? (10 Marks)

CASE STUDY

- 8 Decko Co. is a u.s. firm with a Chinese subsidiary that produces cell phones in China and sells them in Japan. This subsidiary pays its wages and its rent in Chinese yuan, which is presently tied to the dollar. The cell phones sold to Japan are denominated in Japanese yen. Assume that Decko Co. expects that the Chinese yuan will continue to stay fixed against the dollar. The subsidiary's main goal is to generate profits for itself and reinvest the profits. It does not plan to remit any funds to the u.s. parent.
- i) Assume that the Japanese yen strengthens against the u.s. dollar over time. How would this be expected to affect the profits earned by the Chinese subsidiary?
 - ii) If Decko Co. had established its subsidiary in Tokyo, Japan instead of China, would its subsidiary's profits be more exposed or less exposed to exchange risk?
 - iii) Why do you think that Decko Co. established the subsidiary in China instead of Japan? Assume no major country risk barriers.
 - iv) If Chinese subsidiary needs to borrow money to finance its expansion and wants to reduce its exchange rate risk, should it borrow u.s. dollar, Chinese yuan or Japanese yen? (20 Marks)

* * * * *

USN

--	--	--	--	--	--	--	--	--	--

Fourth Semester MBA Degree Examination, Dec.09-Jan.10
International Financial Management

Time: 3 hrs.

Max. Marks:100

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

- 1 a. An importer is to make payment of 1 million Thai baht to its partner in Bangkok. The currency quotes available are:
For dollar in India : Rs.40.0843/40.0996
For dollar in Thailand : Thai baht : 34.9400/34.9600
What is the amount of bill payable in terms of Indian rupees? (03 Marks)
- b. Explain the factors responsible for growing importance of International Financial Management? (07 Marks)
- c. Discuss the factors responsible for emergence of Transaction Exposure in international financial operations. (10 Marks)
- 2 a. What does Economic Exposure indicate in international financial operations? (03 Marks)
- b. Distinguish between a Currency Forward contract and a Currency Futures contract. (07 Marks)
- c. "The management of working capital in an international firm is more complex than in a domestic firm." Substantiate. What are the issues involved in Cash Management of an MNC? (10 Marks)
- 3 a. State the reasons for the differences between the CFAT of the foreign investment project at the subsidiary level vis-a-vis that of the parent in foreign capital budgeting decisions. (03 Marks)
- b. Outline the evolution of International Monetary System. (07 Marks)
- c. Discuss any four major approaches to explain the concept of BOP Equilibrium. (10 Marks)
- 4 a. What do you understand by (i) Direct & Indirect Quotes, and, (ii) Spot & Forward Rates? (03 Marks)
- b. Explain the propositions of Interest Rate Parity Theory. (07 Marks)
- c. Discuss the factors affecting the flow of FDI and FPI into a country. (10 Marks)
- 5 a. What are the components of Balance of Payments? (03 Marks)
- b. Explain the mechanism of arbitrage in forex markets. (07 Marks)
- c. Discuss the process of Hedging through Money Market Operations with a suitable example. (10 Marks)
- 6 a. What is a Currency Option? (03 Marks)
- b. Explain the nature and importance of country risk analysis in IFM. (07 Marks)
- c. Discuss the role of major multilateral financial institutions. (10 Marks)
- 7 a. What is meant by technical forecasting of foreign exchange rates? (03 Marks)
- b. Explain any two methods adopted for measurement of translation exposure. (07 Marks)
- c. Determine arbitrage gain from the following data:
Spot Rate : Rs.78.10/£
3 month forward rate : Rs. 78.60/£
3 month interest rate : Rupees: 5%; British £ : 9%
Assume Rs. 10 million or £ 2,00,000 borrowings (as the case may be) to explain your answer. (10 Marks)

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

8 Case Study :

An Indian importer is required to pay 2 million British Pounds to a UK company in 4 months time. To guard against the possible appreciation of the Pound Sterling, he buys an option, by paying 2 per cent premium on the current price. The spot rate is Rs. 77.50/pound. The strike price is fixed at Rs. 78.20/pound.

Questions :

- a. How do you explain the action taken by the importer in buying the option as above?
(05 Marks)
- b. What will be his action and the result thereof, if Pound Sterling appreciates on the maturity date?
(05 Marks)
- c. What will be his action and the result thereof, if Pound Sterling does not change on the maturity date?
(05 Marks)
- d. What will be his action and the result thereof, if Pound Sterling depreciates on the maturity date?
(05 Marks)

* * * * *

USN

--	--	--	--	--	--	--	--	--	--

08MBAFM426/IB466/BF476

Fourth Semester MBA Degree Examination, May/June 2010
International Financial Management

Time: 3 hrs.

Max. Marks:100

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

- 1
 - a. Identify the three obvious risks faced by MNCs that expand internationally. (03 Marks)
 - b. How is international financial management different from domestic financial management? (07 Marks)
 - c. Explain the objectives and functions of international monetary fund. (10 Marks)
- 2
 - a. Who are the participants of FOREX market? (03 Marks)
 - b. Briefly explain how changes in various economic factors affect the U.S current account balance. (07 Marks)
 - c. What are the techniques for minimizing economic exposure? Discuss. (10 Marks)
- 3
 - a. Stetson Bank quotes a bid rate of \$ 0.784 for the Australian dollar and an ask rate of \$ 0.80. What is the bid / ask % spread? (03 Marks)
 - b. Smart Banking Corporation can borrow \$ 5 million at 6% pa. It can use the proceeds to invest in Canadian dollars at 9% pa over a six day period. The Canadian dollar is worth \$0.95 and is expected to be worth \$0.94 in six days. Based on this information, should smart banking corporation borrow US dollars and invest in Canadian dollars? What would be the gain or loss in US dollars? (07 Marks)
 - c. What are the methods used to invest internationally? Explain. (10 Marks)
- 4
 - a. What are the basic differences between forward and future contract? Give three points. (03 Marks)
 - b. Hopkins Company transported goods to Switzerland and received 2 million Swiss Francs in 3 months. It believes the 3 month forward rate will be an accurate forecast of the future spot rate. The 3 month forward rate of the swiss franc is \$ 0.68. A put option is available with an exercise price of \$0.69 and a premium of \$0.03. Would Hopkins prefer a put option hedge or no hedge? Explain. (07 Marks)
 - c. Write short notes on the following :
i) LIBOR ii) SWIFT iii) Foreign Bond and Euro bond iv) Translation Exposure. (10 Marks)
- 5
 - a. A pound options put contract has strike rate of \$1.910/£ and a premium of \$0.05. Spot rate on maturity is \$1.810/£. Find gain/loss to options buyer/options seller. (03 Marks)
 - b. Spot rate = Rs 44.0030 = \$ 1 ; 6 month future rate = Rs 45.0010 = \$ 1 ; Annualised interest rate on 6 month rupee = 12% ; Annualised interest rate on 6 month dollar = 8%. Given the above data, is there an arbitrage possibility? If yes, show the gain. (07 Marks)
 - c. Indus Ltd., is a the wholly owned Indian subsidiary of US based company Gofts Ltd. Non – consolidated Balance sheet of both Gofts Ltd., and Indus Ltd., (only foreign operations) in thousands are as follows :

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.

Assets	Gofts Ltd	Indus Ltd (affiliate)
Cash	\$ 2200	Rs 8000
Accounts Receivable	2400	4600
Inventory	2400	7000
Net plant and equipment	4600	9000
Investments	2000	-
Total	\$ 13,600	Rs 28600

* Plant and Equipment and common stock were acquired when exchange rate was Rs 38.20/\$.

Liabilities and Net worth	Gofts Ltd (Parent)	Indus Ltd (Affiliate)
Accounts payable	\$ 1000	Rs 12000
Common stock	4000	6000
Retained earnings	8600	10600
Total	\$ 13600	Rs 28600

The current exchange rate is Rs 43.20/ \$. Gofts Ltd., translates by current rate method.

- a. Calculate the accounting exposure of Gofts Ltd., by the current rate method and monetary / non – monetary method.
 - b. Prepare a consolidated balance sheet for Gofts Ltd., and Indus Ltd. (10 Marks)
- 6
- a. Write the names of methods of financing international trade. (03 Marks)
 - b. The spot rate of the Australian dollar is \$ 0.62. The one year forward rate of the Australian dollar is \$ 0.60. The Australian one year interest rate is 9%. Assume that the forward rate is used to forecast the future spot rate. Determine the expected effective financing rate for a US firm that borrows Australian dollars to finance its US business. (07 Marks)
 - c. Explain the purchasing power parity theory and the Fischer effect. (10 Marks)
- 7
- a. What is clean and dirty float? (03 Marks)
 - b. The spot quote on the Deutsche mark is \$ 0.3302 – 10 and the spot quote on the French Franc is \$ 0.1180 – 90.
 - a. What is the direct spot quote for the Franc in Frankfurt? (07 Marks)
 - b. Compute the percentage bid – ask spreads on the DM and Franc. (07 Marks)
 - c. Define BOP. Explain the components of current and capital account. (10 Marks)

8 **CASE STUDY :**

One company has to make a US \$ 1 million payment in three month's time. The dollars are available now. They decide to invest them for three months and they are given the following information

- The US deposit rate is 8% per annum
- The sterling deposit rate is 10% per annum
- The spot exchange rate is \$ 1.80 / pound
- The three months forward rate is \$ 1.78 / pound.

- a. Where should the company invest for better returns?
- b. Assuming that the interest rate and the spot exchange rate remain as above, what forward rate would yield an equilibrium situation?
- c. Assuming that the US interest rate and the spot and forward rates remain as in the original information, where would you invest if the sterling deposit rate were 14% pa.
- d. With the originally stated spot and forward rates and the same dollar deposit rate, what is the equilibrium sterling deposit rate? (20 Marks)
