CBCS SCHEME

USN

20MBAFM406

Fourth Semester MBA Degree Examination, July/August 2022
International Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q1 to Q7.***
2. ***Question No. 8 is compulsory.***

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.

1 a. What is Forex Market? **(03 Marks)**
b. Explain the features of International Financial Management. **(07 Marks)**
c. Explain in detail the components of balance of payment. **(10 Marks)**

2 a. What is EMS? **(03 Marks)**
b. One month USD/INR 60.1275 – 60.1375
USD/€ 1.3590 – 1.3610
Find €/INR **(07 Marks)**
c. Indentify whether the following rates are direct quote or Indirect quotes and provide the corresponding Direct/Indirect quotes.
i) HK $ 1 = Rs. 5.50
ii) Rs. 1 = ¥ Rs. 0.19
iii) £ 1 = Rs. 83.50
iv) Rs. 1 = € 0.0175
v) MYR 1 = Rs. 12.50 **(10 Marks)**

3 a. Mexico inflation 12% this year. US inflation is 2%, spot rate is $ 0.10. What would be the peso in 1, 2, and 3 years? **(03 Marks)**
b. 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 and from Mexican perspective. **(07 Marks)**
c. As American firm purchases $ 4000 worth of perform (FF_r 20,000) from a French firm. The American firm makes a payment in 90 Days in FF_r. The following quotation exist for FF_r. Spot rate 0.2000$, 90 days forward rate 0.22$, US interest rate 15%, French interest rate 10% your expect to spot rate hence 0.24 $. How can Arbitrage be executed in this situation will it affect the arbitrage if a transaction cost of $ 50 is involved. **(10 Marks)**

4 a. A foreign trader assesses the euro exchange rate smooth hence as follows : **(03 Marks)**
$ 1.11 with 0.25 probability, $ 1.13 with 0.50 probability $ 1.15 with 0.25 probability
b. Spot rate $ 1.4407/1.4411 per GBP, 1 month forward $ 1.4408/1.4413, 3 month forward $ 1.4410/1.4415, 6 month forward $ 1.4416/1.4422.
i) Calculate the gain or loss assuming you are going to buy £ 1million in 6 months.
ii) If the spot rate is $ 1.3500/£. How much will be the gain or loss. Assume you are going to buy £ 1 million in 3 months. **(07 Marks)**
c.

	A	B
US ($) floating	LIBOR + 0.5	LIBOR + 1
Can ($) fixed	5%	6.5%

Assume that A wants to borrow US $ at floating rate and B want to borrow Canadian $ at fixed rate of interest and the bank acting as inter mediary shares 50 basis point. Show that swap. **(10 Marks)**

5 a. On April, 3 month interest rate in the UK £ and US \$ are 7.5% and 3.5% per annum respectively. The UK £/US \$ spot rate is 0.7570. What would be the forward rate for US \$ for delivery on 30th June. **(03 Marks)**

b. The bank sold Hong Kong dollar 1,00,000 spot to its customer at Rs. 7.5681 and covered itself in London market on the same day, when the exchange rates were
US1\$ = HK \$ 8.4409 HK \$ 8.4500. Local inter – bank market rates for US \$ were
Spot US \$ 1 = Rs. 62.7128 Rs. 62.9624
Find the profit or loss on transaction. **(07 Marks)**

c. JKL Ltd, an Indian company has an export exposure of JPY 100,00,000 payable Aug 31,2020
Japanese Yen (JPY) is not directly quoted against Indian Rupee.
The current spot rates are :
INR/US \$ = Rs. 62.22, JPY/US\$ = JPY102.34
It is estimated that Japanese Yen will depreciate to 124 level and Indian Rupee to depreciate against US \$ to Rs. 65.
Forward rates are : INR /US \$ = Rs. 66.50
JPY/US \$ = JPY 110.35

i) Calculate expected loss, if the hedging is not done. How the positions change, if the firm takes forward cover?
ii) If the spot rate on August are :
iii) INR/US \$ = Rs. 66.25 JPY/US \$ = JPY 110.85. Is the decision to table forward cover justified? **(10 Marks)**

6 a. What is Cross rates? **(03 Marks)**
b. Explain the difference between ADR and GDR. **(07 Marks)**
c. Explain the similarity and differences between Interest rate parity, purchasing power parity and international fischer effect. **(10 Marks)**

7 a. What is zero coupon bond? **(03 Marks)**
b. Explain the strategies to manage operating exposure. **(07 Marks)**
c. Explain the various international hedging techniques. **(10 Marks)**

8 CASE STUDY [Compulsory]

Expert financial Ltd is faced with problem of deciding on two options.

i) Continue to export every year 2,00,000 units of product at a unit price US \$ 80. Its variable cost per unit is \$ 45.

ii) Install a Manufacturing unit to produce 5,00,000 units in country X a destination for export. Setting up of manufacturing plant will involve an investment outlay of \$ 50 million. The plant is expected to have useful life of 5 years, with \$10 million salvage value. It follows SLM method of depreciation. To support additional level of activities it requires working capital of \$ 5 million. The variable cost of production and sales would be lowered to \$ 20/unit and fixed cost per annum is \$ 2 million. The selling price is \$ 70/unit, The MNC is subject to 40% tax and cost of capital 15%. Advice the company. **(20 Marks)**

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