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10MBAFM426/IB466/BF476

Fourth Semester MBA Degree Examination, June 2012

International Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FIVE full questions.***

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 are the factors influencing Foreign Direct Investment? **(03 Marks)**

b. Define international cash management. Explain the factors to be considered in efficient cash management. **(07 Marks)**

c. Explain briefly the different types of multilateral financial institutions. **(10 Marks)**

2 a. If the exchange rate at the end of 2010-11 is Rs.43.91/US$ and if the rate of inflation in India and USA during 2010-11 is respectively 7% and 4%. Find:

i) Inflation rate differential between the two countries.

ii) The exchange rate at the end of 2010-11. **(03 Marks)**

b. Define exchange rate equilibrium and explain the factors effecting foreign exchange rate. **(07 Marks)**

c. Indian Pharma Ltd, an Indian based foreign MNC is evaluating an overseas investment proposal. Indian Pharma Ltd. exporter of pharmaceutical products is considering to build a plant in US. The project will entail an initial outlay of $ 100 million, and it is expected to give the following cash flow over its life of 4 years:

Year	1	2	3	4
Cash flow (in million $)	30	40	50	60

The current spot exchange rate is 45/$, the risk free rate in India is 11% and in US it is 6%. India Pharma requires a rupee return of 15% on the above project. Calculate the NPV under foreign currency approach. **(10 Marks)**

3 a. Explain: i) Cross rate, ii) Direct quote, iii) Indirect quote. **(03 Marks)**

b. Your company has to make USD 2 million payment in 3 months time, the dollars are available now. You decide to invest them for 3 months and you are given the following information:

US deposit rate = 8% pa

Sterling deposit rate = 9% pa

Spot rate = $ 1.81/tr

3 months forward rate is $ 1.78/tr

i) Where should your company invest for better return?

ii) Assume that the US rate and spot expected return remain as above, what forward rate would yield an equilibrium situation?

iii) Assuming the US interest rate, spot and forward rate remain as in the original question, where would you invest if the sterling deposit rate is 14% pa?

iv) With the originally stated spot and forward rate and the same dollar deposit rate, what is the equilibrium sterling deposit rate? **(07 Marks)**

3 c. A Foreign exchange trader quotes for Belgium Franc spot, 1 month, 3 month and 6 month forward rate to US based treasurer.

$ 0.02478/80, 4/6, 9/8, 14/11

i) Calculate the outright quote for 1, 3, 6 month forward.

ii) If treasurer wished to buy Belgium Franc 3 months forward, how much would you pay in dollars?

iii) If you wanted to purchase USD 1 month forward, how would you have to pay in Belgium franc?

iv) Assuming Belgium Franc was bought what is the premium or discount in the 1, 3, 6 month forward rate in annual percentage.

v) What do the above quotations imply in respect of term structure of interest in USA and Belgium? **(10 Marks)**

4 a. What are the advantages of depository receipts? **(03 Marks)**

b. How do balance of trade default adjusted? **(07 Marks)**

c. Pepsi Company would like to hedge in CAN $40 million payable to 'A' Ltd a Canadian aluminium producer which is due in 90 days. Suppose it faces the following exchange and interest rate.

Spot	$ 0.7307/12 per can $
Forward rate 90 days	$ 0.7320/41 per can $
CAN $ 90 day interest rate (annualized)	4.71% – 4.64%
US $ 90 days interest rate (annualized)	5.50% – 5.35%

Which hedging alternative would you recommend? The first rate is the borrowing rate and the second rate is lending rate. **(10 Marks)**

5 a. What are the goals of MNC? **(03 Marks)**

b. Nike International needs to order supplies 2 months ahead of delivery date. It is considering an order from Japanese that requires a payment of ¥ 12.5 millions payable as of delivery date. Nike has two options:

i) Purchase two call option contract each option contract is ¥ 6250000.

ii) Purchase one future contract representing ¥ 12.5 millions.

The future price of yen has historically exhibited a slight discount from the existing spot rate. However the firm likes to use currency option to hedge in Japanese yen for transaction 2 month in advance. Nike would prefer hedging since it is uncomfortable to leave position open giving historical volatility of yen. The current yen spot rate is $ 0.0072. There are 2 can options available, can A with an excise price of 5% above spot price with premium of 2% the price to be paid/yen if option is exercised. Can B with an excise price of 10% above spot price with premium of 1.5% the price to be paid per yen if the option is exercised.

The 2 month future price of yen is $0.006912 as an analyst you have been asked to answer insight of how to hedge assuming the spot rate remain unchanged after 2 months.

i) Calculate option exercise price and premium for both the can option.

ii) If Nike decided to allow yen un-hedged, will it benefit? If so calculate trade-off.

iii) What is the optimal choice for the company, can A, can B or future contract if the spot price on expiry becomes $ 0.00781? **(10 Marks)**

5 c. From the following details given, prepare a statement of sources and funds:

i) ABC Company of India decides to invest Rs.600000 to establish a business unit abroad half of the investment is made in cash and the remaining half is arranged by selling bonds in Russia.

ii) Profit made by the subsidiary of ABC Company Rs.2,00,000 of which 25% is remitted to India.

iii) A US exporter sells to India a process equipment for Rs.150000.

iv) Shravan an Indian goes to Srilanka on vaccation with 2000/- and spends 1000/- on services and bought goods of Rs.900.

v) An Indian company imports cloths worth 10000/- from Nepal.

vi) An Indian importer paid Rs.2500 to an English shipping company as charges.

vii) An exporter sells spares parts worth 25000/- to Columbia and receives payment.

(07 Marks)

6 a. Explain the importance of BOP. **(03 Marks)**

b. What are the issues involved in international capital budgeting? **(07 Marks)**

c. i) Dutch mark spot was quoted at \$0.4/DM in New York, the price of Pound sterling was quoted at \$1.8/£. What would you expect the price of pound to be in Germany and if the pound were quoted in Frankfort at D.M 4.40/£, what would you do to profit from the above situation?

ii) An Indian Company imports machinery worth of £ 2 millions and is to make payment after 6 months. The current rate are spot rate = Rs.66.96/£, 6 months forward rate = 67.50/£. What should AB Ltd. do if they expected that in 6 months time the pound will settle at Rs.67.15/£ and what are options available to the company in case of depreciation or appreciation? **(10 Marks)**

7 a. What are features of international banking? **(03 Marks)**

b. Explain the organizational structure and functions of IMF. **(07 Marks)**

c. Assuming that a foreign subsidiary of US multinational has the following :

Particulars	Amount
Cash	FC 100
Accounts receivable	FC 150
Inventory	FC 200
Fixed Assets	FC 250
Current liabilities	FC 100
Long term debt	FC 300
Networth	FC 300

Assume the historical rate is \$ 2 = FC 1, current exchange rate is \$1 = FC 1 and inventory is carried at market price. Calculate the gain or loss under different translation methods.

(10 Marks)

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

Company	Rate	Floating rate
A	12.0%	LIBOR + 0.1%
B	13.4%	LIBOR + 0.6%

A requires a floating rate loan and B requires fixed rate. 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. **(15 Marks)**

b. Given the following information. Calculate any arbitrage possibility is available.

Spot rate Rs.42.0010 = $1
6 month forward rate Rs.42.8020 = $1
Annualized interest rate on 6 month dollar = 8%
Annualized interest rate on 6 month rupees = 12%. **(05 Marks)**

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