

CBCS SCHEME

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18MBAFM404

Fourth Semester MBA Degree Examination, November 2020 International Financial Management

Time: 3 hrs.

Max. Marks: 100

Note: Answer any FIVE full questions.

- 1 a. What is international financial environment? (03 Marks)
 b. Explain : i) Cross rate ii) Direct quote iii) Indirect quot. (07 Marks)
 c. A foreign exchange dealer has \$1 million that he is free to invest in any currency. He can trade at the following prices.
 Spot rate, Mexican new pesos/\$ = NP15/\$
 6 months forward rate for Mexican new pesos = NP16/\$
 6 months Mexican interest rate = 18%
 6 months US interest rate = 5%
 Is it possible to go for CIA? If yes explain the steps assuming 1\$ million dollar to invest. (10 Marks)

- 2 a. Briefly explain ADR and GDR. (03 Marks)
 b. What are the goals of MNC? (07 Marks)
 c. Form products is the Canadian affiliate of USA manufacturing company its balance sheet in 000 of Canadian \$ for Jan 1st, 2016 is shown below :
 The Jan 1st, 2016 exchange rate was C\$1.6/\$

Assets	Amt (C\$)	Liabilities	Mat (C\$)
Cash	1,00,000	Current liabilities	60,000
A/c receivable	2,20,000	Long term debt	1,60,000
Inventories	3,20,000	Capital stock	6,20,000
Net plant and equipment	2,00,000		
	8,40,000		8,40,000

Determine accounting exposure for Jan 2017 using current rate method, if the exchange rate of Dec 31st, 2016 is C\$1.5/\$. (10 Marks)

- 3 a. What is Euro credit? (03 Marks)
 b. Explain the importance of BOP. (07 Marks)
 c. Briefly explain foreign exchange participants. (10 Marks)
- 4 a. What is international capital budgeting? (03 Marks)
 b. In India 1£ = 78/79Rs. In Europe 1£ = 1.2/1.3€. In India what is 1€ = Rs. (07 Marks)
 c. Pepsi company would like to hedge its CAN \$ 40 million payable to 'A' limited a Canadian aluminum producer which is due in 90 days suppose it faces the following exchange and interest rates.
 Spot rate - \$ 0.7307/12 per CAN\$
 Forward rate (90 days) - 0.7320/41 per CAN\$
 CAN\$ 90 days Interest rate (annualized) - 4.71% - 4.64%
 US\$90 day rates (annualized) - 5.50% - 5.35%
 Which heading alternative would you recommend? The first rate is the borrowing rates and second rate is lending rate. (10 Marks)

- 5 a. What is SWIFT Mechanism? (03 Marks)
 b. Explain in detail of structure of Foreign Exchange Market. (07 Marks)
 c. Briefly explain risk and rewards in International Finance. (10 Marks)
- 6 a. What are the accounting components of BOP? (03 Marks)
 b. Briefly explain the concept of international fisher effect and interest rate parity. (07 Marks)
 c. A foreign exchange dealer has assumed the following information for a particular bank.
 Value of CAD in US dollar = \$0.90
 Value of NZ\$ in USD = \$0.30
 Value of CAD in NZ\$ = NZ\$3.02
 On the basis of above information, is triangular arbitrage possible? If yes calculate the profit from strategy if you had \$150,00,000 to use. (10 Marks)
- 7 a. What is the concept of Option? (03 Marks)
 b. $1\text{£} = 1.4/1.6\text{AUD}$
 $1\text{£} = 78/80\text{INR}$
 $1\text{CAD} = \text{how many INR?}$ (07 Marks)
 c. Briefly explain the concept of arbitrage and list out types. (10 Marks)
- 8 A US MNC is planning to install a manufacturing unit to produce 500000 units of automobile component in India. Setting up of manufacturing plant, it involves 50 million cash outlay. The plant is expected to have useful life of 5 years with Rs.10 million salvage value MNC will follow the SLM method of depreciation. To support running of business working capital of 5 million is invested. Variable cost of production is 20/unit. Fixed cost estimated 2 million, selling price is 70/unit. MNC is subjected to 40% tax in India and rate of return is 15%. It is forecasted that rupee will depreciate @ 3% pa and initial exchange rate Rs.48/\$. Advice the MNC regarding the financial viability of the proposal. (20 Marks)
