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12MBAFM426/BI436

Fourth Semester MBA Degree Examination, June/July 2015
International Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any THREE questions from Q.No. 1 to Q.No. 6.***
2. ***Question No. 7 and 8 are 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 Forward Rate Agreement? **(03 Marks)**
b. Distinguish between a currency forward contract and a currency futures contract. **(07 Marks)**
c. Explain the objectives and functioning of IMF. **(10 Marks)**

2 a. Differentiate between global bond and euro bond. **(03 Marks)**
b. Explain different methods of exchange rate forecasting. **(07 Marks)**
c. Explain the concept of disequilibrium in BOP. How can it be restored? **(10 Marks)**

3 a. What are Special Drawing Rights? **(03 Marks)**
b. From the following information, determine the outright rates, spread and the percentage of premium or discount (ask rate). **(07 Marks)**

	Spot	1 month	6 month
INR/MYR	16.7725/46	20/30	40/35
INR/NZD	47.5212/18	213/203	175/192

c. Discuss the techniques of managing economic exposure. **(10 Marks)**

4 a. State the relative form of PPP theory. **(03 Marks)**
b. Describe how inflation and interest rates affect equilibrium exchange rates. **(07 Marks)**
c. A series of transactions between United States and the rest of the world are given below :
i) An American company export goods to a British company for $ 20,000. The British company signs a bill of exchange for its imports.
ii) An American chemical company decides to build a chemical plant in Hong Kong. The company ships $ 40,000 worth of materials to Hong Kong.
iii) An Italian American ships $ 30,000 worth of goods to his relatives in Italy.
iv) An American citizen buys Russian Government bonds for $ 30,000 in cash.
v) An American company imports $ 5,000 worth of goods from Mexico.
vi) An American citizen goes to Brazil for vacation where he spends $ 5,000. Prepare the balance of payment for the United States. **(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 the gain / loss to options buyer / options seller. **(03 Marks)**
b. What is Translation exposure? Explain the translation methods. **(07 Marks)**
c. Write short notes on the following :
i) Correspondent banking ii) SWIFT iii) Zero coupon bond iv) Capital Accounting convertibility. **(10 Marks)**

6 a. An exchange rate forecaster expects the dollar to trade at Yen 125, one year from now. If the spot rate in Yen 121/USD and US interest rate is 4%, what is the interest rate in Japan? **(03 Marks)**

b. Explain the issues involved in international capital budgeting. **(07 Marks)**

c. The following table provides the exchange rate between the British Pound (GBP) and the US Dollar (USD) quoted by a large international bank on February 18, 2015. The quote is for the number of USD per GBP.
Spot : 1.4407/1.4411 ; 1 month forward : 1.4408/1.4413 ;
3 month forward : 1.4410/1.4415 ; 6 month forward : 1.4416/1.4422.
Suppose that on February 19, 2015, the treasure of a US corporation enters into a long forward contract to buy £ 1 million in 6 months in order to hedge against exchange rate moves.
   i) Suppose the spot exchange rate rose to $ 1.500/GBP at the end of the 6 month, ascertain the total pay off from long position to US corporation.
   ii) Suppose the spot exchange rate fell to S 1.3500/GBP at the end of 6 months, ascertain the payoff to US corporation. **(10 Marks)**

7 a. Spot rate MXP16.60 = USD 1 ; 6 months forward rate MXP16.62 = USD1 ;
Interest rate, MXP = 8% , USD = 5%. Given the above data, show how a trader can make profits? **(05 Marks)**

b. In London, a dealer quotes : GBP/CHF spot : 3.5250/55 ; GBP/JPY spot : 180.80/181.30 . Suppose in Genera, the quote is CHF/JPY spot : 51.1530/51.2550. What can a trader do? **(05 Marks)**

c. The spot exchange rate for the Euro declines from EUR 1.50/USD to EUR 1.20/USD. Which currency has depreciated and by how much? **(05 Marks)**

d. A forex dealer of a bank gives you a spot quotation of INR/GBP : 104.3219/24. What does the quotation imply? **(05 Marks)**

8 Spot rate is INR60/USD
90 days forward rate is INR59.50/USD. Interest rate on borrowing in India and USA is 6% p.a. Interest rate on deposit/investment is 5% p.a.
A 90 day call option is having a strike price of INR 59.60 and a premium of INR 0.05 per USD. A 90 day put option is having a exercise price of INR 59.80 and a premium of INR 0.05 per USD. Spot rate on the 90th day is INR 59.80/USD. Given the above data, examine the following four alternatives of contractual hedge as applied to an importer who has imported goods worth USD 10,000 from the USA and having to make payments after 90 days.

a. No hedge.
b. Forward market hedge.
c. Money market hedge.
d. Currency options hedge. **(20 Marks)**

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