PG – 882

IV Semester M.B.A. Degree Examination, July 2017
(CBCS)
MANAGEMENT
Paper – 4.2.2/4.6.2 : International Financial Management

Time : 3 Hours Max. Marks : 70

Instructions : *Answer **all** Sections.*
*Marks are indicated **against each** Section.*

SECTION – A

Answer **any five** of the following questions. **Each** question carries **five** marks : **(5×5=25)**

1. List and briefly explain the various exchange rate regimes.
2. What is 'Balance of Payments' ? How is it calculated ? List the important components included in calculation of 'Balance of Payments'.
3. Compare and contrast Domestic and Off shore financial markets.
4. Assuming you are representing X Ltd., and the following rates per $ is quoted against SF.

Day	Quotes
1	1.6962/78
2	1.6990/70
3	1.7027/42

   a) On which day is it cheaper to buy US $ with respect to SF ?
   b) How many US $ do you need to buy 1000 SF on Day 1 ?
   c) What is the spread on Day 2 ?
   d) If you exchanged $ 2500 for SF 4256.75 on which day, did you exchange ? What transaction you made ?

5. Find the cross quote of Swiss Francs in India, given that
   INR/USD 67.07/67.32
   USD/SFr 0.7662/0.7703

P.T.O.

6. The rate of inflation in India is 8% per annum and in the USA it is 4%. The current spot rate for USD in India is Rs. 46. What will be the expected rate after 1 year and after 4 years applying the purchasing Power Parity theory ?

7. The following quotes are given for spot, 1 month, 3 months and 6 months Indian Rupee and US Dollar. Convert these into outright rates with corresponding spreads and also state whether rupee is quoted at premium or discount for each period.

Currency	Spot	1-month	3-months	6-months
Rs./US dollar	65.2321/2340	25/45	142/115	6/9

SECTION – B

Answer **any three** questions. **Each** question carries **ten** marks : **(3×10=30)**

8. Explain in detail the structure of Foreign Exchange Market. State and explain the different types of transactions and settlement dates in Foreign Exchange Markets.

9. Following information is given :
   Exchange rate – Canadian Dollar 0.666 per DM (spot)
   Canadian Dollar 0.671 per DM (3 months)
   Interest rates DM 7.5% p.a.
   Canadian Dollar 9.5% p.a.
   To take the possible arbitrage gains, what operations would be carried out ?

10. Company ABC and XYZ have been offered the following rates per annum on a $200 million five year loan :

Company	Fixed rate	Floating rate
ABC	12.0	LIBOR + 0.1%
XYZ	13.4	LIBOR + 0.6%

Company ABC requires a floating-rate loan; company XYZ requires a fixed rate loan. Design a swap that will net a bank acting as intermediary at 0.1 per cent per annum and be equally attractive to both the companies.

11 Distinguish between forwards and schemes and explain the importance of these two in International Foreign Exchange Market.

SECTION – C

This is a **compulsory** question carrying **fifteen** marks : **(1×15=15)**

12. Case study :

Amte Ltd., has bought Swiss auto parts two months ago. Amte Ltd., will need S. Fr 1,00,000 in 180 days. Amte Ltd., wants to hedge its currency risk. Amte Ltd., considers using

a) a forward hedge,

b) a money market hedge,

c) an option hedge,

d) no hedge.

Its analysts develop the following information, which can be used to assess the alternative solutions :

a) Spot rate of S.Fr as of today 0.68$/S.Fr.

b) 180-day forward rate of S.Fr as of today 0.70$/S.Fr.

c) Interest rate are as follows :

Deposit rates : 9% in Switzerland, and 13% in the US.

Borrowing rates : 10% in Switzerland, and 14% in the US.

d) A call option on S.Fr that expires in 180 days has an exercise price of 0.70 $/S. Fr and a premium of $0.02.

e) A put option on S.Fr that expires in 180 days has an exercise price of 0.71$/S.Fr and a premium of $0.03.

The expected spot rate at expiry would be 0.82$/S. Fr. Suggest the best choice for the financial manager, including remaining un-hedged.

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PG – 932

IV Semester M.B.A. Degree Examination, July 2016

(CBCS)

MANAGEMENT

4.2.2/4.6.2 : International Financial Management

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SECTION – A

Answer **any five** of the following questions. **Each** question carries **five** marks. **(5x5=25)**

1. Explain the importance International credit and financial markets.
2. Distinguish between forwards and futures.
3. Explain purchasing power parity theory and international fisher effect.
4. Explain the different types of accounts maintained under balance of payments with its components.
5. XYZ Ltd. is an Indian affiliate of US sports manufacturer. It manufacture items which has sold primarily in US and UK. XYZ Balance Sheet in 000' of Rs. as on 31st March 2015 follows :

Assets	**Amt (000' Rs.)**	**Liabilities**	**Amt. (000' Rs.)**
Cash	8,000	Accounts Payable	4,500
Accounts Receivable	6,500	Short term bank loan	3,500
Inventory	5,500	Long term loan	6,000
Net plant and equipment	20,000	Capital and Stock	20,000
		Retained Earnings	6,000
Total	**40,000**	**Total**	**40,000**

The exchange rate on 1st April 2014 is Rs. 70/$ and 31st March 2015 is Rs. 77/$. Determine the accounting exposure and accounting gain or loss under monetary and non-monetary method.

P.T.O.

6. The buying rate for Indian rupee spot in Newyork is 0.94 $. What would you expect the price of US $ to be in Mumbai, if the $ were quoted in Mumbai at Rs. 84. How is the market suppose to react ? On the same date that the Rs. Spot was quoted $ 0.94 in Newyork, the price of the Pound sterling was quoted $ 1.80.
   i) What would you expect the price of the pound to be in India.
   ii) If the pound were quoted in Mumbai at Rs. 93 pound what would you do to profit from the situation ?

7. You have called your foreign exchange trader and asked for quotations on the spot one, three and six months. The trader has responded with the following : $ 0.6284/85, 3/7, 9/8, 12/10.
   i) What does this mean in terms of $ per Euro ?
   ii) If you wished to buy spot Euros how much would you pay in $?
   iii) If you wanted to purchase spot US$ how much would you have to pay in Euro ?
   iv) What is the premium or discount in the one, three and six months forward rates in annual % (assume you are buying Euros).

SECTION – B

Answer **any three** of the following questions. **Each** question carries **ten** marks. **(3x10=30)**

8. Describe the importance of International monetary system and stages of evolution.

9. a) On October 29th you have bought December futures on GBP on the price of $1.445. The contract size is £ 62,500. The initial margin is 5% for the next 3 days, the closing price of are $ 1.4490, $ 1.4460 and $ 1.4410. Determine the mark to margin profit or loss for the above 3 days and the balance in the margin A/c.
   b) If exchange rate at the end of 2014-15 is Rs. $ 43.91/US $ and if the rate of inflation in India and USA during 2015-16 is respectively 7 percent and 4 percent. Find :
      i) Inflation rate differential between the two countries and
      ii) The exchange rate at the end of 2015-16.

10. Discuss the evolution of European monetary system and its trends in the International money market.

11. An UK importer imports goods worth of US $ 5,000 from USA and he has to make payment after 90 days. The importing firm is expecting changes in the exchange rate and it thinks about selling a particular alternative. Spot rate £ 0.8/$, 90 days forward rate is £ 0.75/$, interest rates on borrowing in UK and USA is 5% p.a., Interest rate on deposits /investments is 4% p.a. in 90 days call option is having a strike price of £ 0.6 pounds at a premium of £ 0.05/$. In 90 days put option is having exercise price £ 0.65 and a premium of £ 0.05/$. Spot rate on 90th day is £ 0.78/$. Determine the hedging strategies and best option to the importer.

SECTION – C

12. **Compulsory** case study. **(1×15=15)**

The currency exchange rates and currency interest rates are as follows :

1-Year Canadian dollar (C$) Spot rate	$ 0.85/C$
1-Year Canadian dollar (C$) Forward rate	$ 0.86/C$
1-Year Canadian dollar (C$) Interest rate	5.5%
1-Year US Interest rate	7.5%

In what direction will Interest arbitrage force the quoted rates to change ? Explain the steps and compute the profit based on a $ 1 million initial position.