PG – 741

IV Semester M.F.A. Degree Examination, June 2015
(Semester Scheme)
FINANCE AND ACCOUNTS
Paper – 4.3 : International Financial Management

Time : 3 Hours Max. Marks : 80

SECTION – A (10×2=20)

Note : Answer **any ten** of the following sub-questions in about **3-4** lines **each. Each** sub-question carries **two** marks.

1. a) Identify the components of International financial system.
   b) What is spread ?
   c) Define arbitrage.
   d) What is strike price ?
   e) Mention the types of country risk assessment.
   f) State four important features of Euro currency market.
   g) State the major external techniques used in managing foreign exchange risk.
   h) Define cost of debt in international market.
   i) What are the goals of Global Financial Systems ?
   j) Define International fisher effect.
   k) What is meant by project risk ?
   l) State the participants in foreign exchange market.

SECTION – B (3×5=15)

Note : Answer **any three** questions in about **one** page **each. Each** question carries **five** marks.

2. Write a note on exchange rate system in India.
3. Write a note on Foreign Currency Bonds.

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4. Briefly explain the management of receivables in multinationals.

5. What are the different methods used to study political risk ? Explain any one of these methods.

6. From the following details, calculate the arbitrage possibilities.
   - Spot rate ₹ 35.0020 = $
   - 6 months forward rate ₹ 35.9010 = $
   - Annualized interest rate on 6 month rupee : 12%
   - Annualized interest rate on 6 month dollar : 7%

SECTION – C **(2×15=30)**

Note : Answer **any two** questions. **Each** question carries **15** marks.

7. "Instead of total cash flows, incremental cash flows should be the basis for evaluating foreign capital budgeting projects". Do you agree ? Why ?

8. Enunciate the Theory of Interest Rate Parity and enumerate the factors that limit is applicability.

9. "Economic exposure implies the change in the value of a firm due to unanticipated change in exchange rates". Examine the statement.

10. Bharath International, an Indian based multinational company, is evaluating an abroad investment proposal. It has expanding its activities to such an extent that it is now considering a project to build a plant in USA. Project cost is $ 50 million and it is expected to generate cash flow for four years as follows :

Year :	1	2	3	4
Cash flows ($ millions) :	20	30	20	10

Current spot exchange rate is ₹ 60/$. Risk free rate in India is 10% and in USA, it is 6%. Bharath International's required rate of return on this project is 20%. From the above information, you are required to evaluate project by using

a) Home Currency Approach and

b) Foreign Currency Approach.

SECTION – D (1×15=15)

11. Case Study **(compulsory)** :

An Indian company is planning to set up a subsidiary in the USA. The initial project cost is estimated to be US dollar 400 million ; working capital requirements are estimated at US $ 40 million. The Indian company follows the straight line method of depreciation. The finance manager of the company estimated the following in respect of this project.

- Variable cost of production and sales $ 25 per unit
- Fixed costs per annum are estimated at $ 30 million.
- Plant will be producing and selling 5 million units at $ 100 per unit and
- Expected economic useful life of the plant is five years with no salvage value.

The subsidiary of Indian company is subject to 40% corporate tax in the US and the required rate of return of such a project is 12%. The current exchange rate between the two countries is ₹ 48/US$ and the rupee is expected to depreciate by 3% per annum for next five years.

The subsidiary will be allowed to repatriate 70% of the CFAT every year along with the accumulated arrears of blocked funds at year end 5, the withholding taxes are 10%. The blocked funds will be invested in the USA money market by the subsidiary, earning 4% (free of tax) per year.

Determine the feasibility of having a subsidiary company in the USA assuming no tax liability in India on earnings received by the parent from the US subsidiary.