Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER (III) – EXAMINATION – WINTER 2018

Subject Code: 3539225 **Date: 13/12/2018**

Subject Name: International Finance

Time: 10:30 AM – 1:30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Marks

Q - 1 Explain the following terms/answer the following questions (Two marks each) **14**

(a) Indirect Quotes
(b) Cross rates
(c) Forward exchange rate
(d) Exim Bank
(e) Export credit
(f) Current account convertibility
(g) Currency Hedging

Q.2 (a) Explain in detail "Purchasing Power parity theory" **07**

Q.2 (b) The existence of difference in interpretation of trade terms in different countries leads to friction in international trade. In light with the same and to avoid misunderstanding, disputes and references to courts with wastage of time and money, Incoterms were evolved. Explain in detail "Incoterms with Sellers' and Buyer's obligations along with important terminologies". **07**

OR

Q.2 (b) A customer with whom the bank had entered into a 3 months' forward purchase contract for SF 10000 at the rate of INR 61.2500 comes to bank after 2 months and request for cancellation of the contract. On this date, the rate prevailing are: **07**

Spot	SF 1 = 61.3450/3750
1 month forward	SF 1 = 61.4800/5150

What is loss/gain to the customer on cancellation?

Q.3 (a) Explain different types of Letter of credit with suitable example. **07**

Q.3 (b) Suppose in UK and India inflation rates are 3% and 7% respectively, and the present exchange rate is GBP 1 = INR 89.9000, then what will be exchange rate (a) after 1 years and (3) after 3 years? **07**

OR

Q.3 (a) The bank entered into agreement with its customers on 5th March, 2018 for a forward purchase contract for SGD 4000 delivery 1st July, 2018 at the rate of 48.1400 per dollar covering itself by forward sale at INR 48.1600. On 15th April, 2018 the customer requests the bank to purchase a bill for SGD 4000 under this contract. Calculate the amount that would be paid to the customer assuming the following rates in interbank market on 15th April, 2018: **07**

Spot	SGD 1 = INR 48.1025/1075
Delivery July	SGD 1 = INR 48.6475/6550

Assume there is no interest on outlay of funds and inflow of funds.

Q.3 (b) Explain in detail "Bretton woods agreement and Present flexible exchange rate regime" **07**

Q.4 (a) Raising fund from international market by selling the stack become more lucrative with the expansion of the international depository receipts. In the light of the above explain in detail "ADR" and "GDR" in detail with examples. **07**

Q.4 (b) Assume that an importer from India wants to buy Raw Cashew from South Africa. But he faces a typical problem of exchange rate and there is no quote is available for INR (Indian Rupees) to SAR (South African Rand). He wants to calculate the exchange rate and found that USD 1 = INR 72.2350 and SAR 1 = USD 0.0155. What should be quote of 1 INR in SAR? **07**

OR

Q.4 (a) Dr. Reddy's Lab is a multinational firm with its operation across 4 continents. The organization faces the issue with the management of the Cash. In present scenario, explain with example several techniques for cash management for multinational firms. **07**

Q.4 (b) Rahul gears is one of the major producer of T teethed gears located at Anand, Gujarat. The company made a contract with George Machine tools located at London, UK. This is very first experience of Rahul Gears to deal in international market and the company do not wants to bear default risk. An import-export expert advice the company to eliminate risk of the default through Letter of Credit. Explain in detail the process of issue of Letter of Credit from the perspective of Exporters of the Goods/Services. **07**

Q. 5 **CASE STUDY:**

It is September 1990 and Detroit Motors of Detroit, Michigan, is considering establishing an assembly plant in Latin America for a new utility vehicle it has just designed. The cost of capital expenditures has been estimated at $6500000. There is not much of sales market in Latin America, and virtually all output would be exported to the United States for sale. Nevertheless, an assembly plant in Latin America is attractive for at least two reasons. First, labour costs are expected to be half what Detroit Motors would have to pay in the United States to Union workers. Since the assembly plant will be a new facility for a newly designed vehicle, Detroit Motors does not expect any hassle from its U.S. union in establishing the plant in Latin America. Secondly, the chief financial officer (CFO) of the Detroit Motors believe that a debt-for-equity swap can be arranged with a least one of the Latin American countries that has not been able to meet its debt service on its sovereign debt with some of the major U.S. banks.

The September 10, 1990, issue of Barron's indicated the following prices (cents on the dollar) on Latin American bank debt:

Brazil	21.75
Maxico	43.12
Argentina	14.25
Venezuela	46.25
Chile	70.25

The CFO is not comfortable with the level of political risk in Brazil and Argentina, and has dedicated to eliminate them from consideration. After some preliminary discussions with the central banks of Maxico, Venezuela, and Chile, the CFO has learned that all three countries would be interested in hearing a detail presentation about the type of facility Detroit Motors would construct, how long it would take, the number of locals that would be employed, and the number of units that would be manufactured per year. Since it is time-consuming to prepare and make these presentations, the CFO would like to approach the most attractive candidate first. He has learned that the central bank of Mexico will redeem its debt at 80 percent of face value in a debt-for-equity swap, Venezuela at 75 percent, and Chile 100 percent. As a first step, the CFO decides an analysis based purely on financial considerations is necessary to determine which country looks like most viable candidate.

(a) Should CFO considers another aspects before finalizing most viable candidates? If yes, discuss those aspects in detail. **07**

(b) What should be primary concern to CFO, issues with U.S. Labour union or Settlement of Debt-for-equity swap ratio for selection of location? **07**

OR

(a) Is it wise to eliminate Brazil and Argentina from the list of available option? Why? **07**

(b) You are required to assist CFO in analysis and provide your advice. **07**

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