

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 3– • EXAMINATION – WINTER 2016**Subject Code: 2830502****Date: 04/01/2017****Subject Name: International Finance (IF)****Time: 02.30 PM TO 05.30 PM****Total Marks: 70****Instructions:**

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

Q.1 (a) Answer the followings.

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- 1 In direct quote, if the forward rate is less than spot rate, then the foreign currency is And home currency is.....

- A. Appreciating, Depreciating B. Depreciating, Appreciating
C. Appreciating, Constant D. None

The spot rate for INR/AUD is 29.45 and three month forward rate is 29.36, then % Depreciation of INR =

2. A. 1.226% B. 1.365%
C. 1.056% D. 1.222%

The spot rate for Rs is Rs50-52. And Forward rate is Rs53-56.

3. Swap (Bid)=, Swap (Ask)=, Spot Spread=, Forward Spread=.....

- A. 3,4,2,3 B. 3,2,2,3
C. 3,4,2,4 D. 3,3,2,3

Interest Rate Parity Theory implies...

4. A. Highest interest rate in one country will be offset by depreciation of currency of that country B. Highest interest rate in one country will be offset by appreciation of currency of that country
C. Highest inflation rate in one country will be offset by depreciation of currency of that country D. Changes in anticipated inflation produce corresponding changes in the rate of interest.

- 5 Translation Risk refers to...

- A. Profit or loss associated with converting foreign currency denominated assets/liabilities into reporting currency B. Effect of changes in exchange rate between transaction date and settlement date may be adverse.
C. Transaction exposure D. Unanticipated changes in exchange rate, which has impact on potential of organization to perform.

Find odd one out with reference to hedging tools

6. A. Forward Exchange Contract B. Money Market Hedge
C. Currency Futures and Option D. Caps, Floors and Collars

- Q.1 (b) Answer the following terms briefly

04

1. Leading and Lagging
2. Bilateral Netting and Multi lateral Netting.
3. Cross Currency Roll Over
4. Swap points

- Q.1 (c) Presently, dollar is worth 140Yen in spot market. The interest rate in Japan on 90 days government securities is 4% p.a. 04
- a) If Interest Parity theory holds goods and if 3 months forward rate is 138 what is the implied interest rate in USA?
- b) If the actual interest rate is 7% p.a in USA what action would follow?

- Q.2 (a) What action will follow if purchasing Power Theory does not hold good? 07
- (b) DK is a UK based exporter. It has invoiced \$350000 to US Customer. 07
 The money is receivable in three months. How can it insulate itself against exchange rate risk by doing money market hedge?
 Exchange Rate in London are:
 (\$/£) Spot 1.5865-1.5905
 3 Months Forward 1.6100-1.6140
 And following are the money market Rates.

Money Market Rates		
	Deposit	Loans
US	7%	9%
UK	5%	8%

OR

- (b) The united States Dollar is selling in India at Rs45.50. If the interest rate for six month borrowing in India is 8% p.a. and corresponding rate in USA is 2%, 07
- i. Do you expect United State Dollar to be at discount or at discount in the Indian Forward Market
- ii. What is expected 6 Month Forward Rate for United States Dollar in India?
- iii. What is rate of forward premium or discount?

- Q.3 (a) How does money market hedge operate? Discuss its salient features. 07
- (b) You are finance manager of company, Your MD is asking to explain how to take advantage of arbitrage gains possible on Rs. 10,00,000 from the middle rates given below. Assume there are no transaction costs- 07
- Rs. 76.200 =£ 1 in London
 Rs. 46.600 = \$ 1 in Delhi
 \$ 1.5820 = £ 1 in New York

OR

- Q.3 (a) Discuss the scheme of ECGC. 07
- (b) Soni Ltd. and Toni Ltd. face the following interest rate: 07
- | | Soni Ltd. | Toni Ltd |
|---------------------------|---------------|---------------|
| US Dollar (floating rate) | LIBOR + 0.25% | LIBOR + 2.25% |
| Japanese Yen (fixed rate) | 1.75% | 2% |

Toni ltd wants to borrow US dollars at t floating rate of interest and Soni Ltd. wants to borrow Japanese yen at a fixed rate of interest. A financial institution is planning to arrange a swap and requires a 100 basis point spread. If the swap is equally attractive to Soni Ltd. and Toni Ltd. what rate of interest will they end up paying?

- Q.4 (a) Discuss the determinants of Forex rates. 07
- (b) An Indian importer has to settle an import bill for \$ 1,30,000. The exporter has given the Indian exporter two options: 07

- (i) Pay immediately without any interest charges. **www.FirstRanker.com**
 (ii) Pay after three months with interest @ 5% per annum. **www.FirstRanker.com**

The importer's bank charges 15% per annum on overdrafts. The exchange rates in the market are as follows:

Spot rate (Rs./\$) : 48.35/48.36
 3-month forward rate (Rs. /\$) : 48.81/ 48.83

The importer seeks your advice. Give your advice.

OR

- Q.4 (a) Explain the significance of LIBOR in international financial transactions. 07
 (b) A London dealer quotes: 07
 GBP/ USD Spot: 1.6428/35
 GBP/JPY Spot: 191.80/ 191.95

What will be the USD/ JPY (Bid and Ask) rate in New York?

- Q.5 Management of an Indian company is contemplating to import a machine from USA at a cost of US\$ 15,000 at today's spot rate of \$0,0227272 per Rupee. Finance manager opines that in the present foreign exchange market scenario, the exchange rate may shoot up by 10% after two months and accordingly he proposes to defer import of machine. Management thinks that deferring import of machine will cause a loss of Rs. 50,000 to the company in the months. 14

As the Finance Manager of Company, you are asked to express your views, giving reasons, as to whether the company should go in for purchase of machine right now or defer purchase for two months.

OR

- Q.5 Sunshine Ltd. is engaged in the production of synthetic yarn and planning to expand its operations. In this context, the company is planning to import a multipurpose machine from Japan at a cost of ¥ 2,460 lakh. The company is in a position to borrow funds to finance import at 12% interest per annum with quarterly rests, India based Tokyo branch has also offered to extend credit of 90 days at 2% per annum against opening of an irrevocable letter of credit. Other information are as under: 14

- Present exchange rate : Rs. 100 = ¥ 246
- 90 days forward rate : Rs. 100 = ¥ 250
- Commission charges for letter of credit at 4% per 12 months.

Advise whether the offer from the foreign branch should be accepted.
