R15

Code No: 724AG

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA IV Semester Examinations, January-2018
INTERNATIONAL FINANCIAL MANAGEMENT

Time: 3hours **Max.Marks:75**

Note: This question paper contains two parts A and B.
Part A is compulsory which carries 25 marks. Answer all questions in Part A.
Part B consists of 5 Units. Answer any one full question from each unit. Each question carries 10 marks and may have a, b, c as sub questions.

PART - A **5 × 5 marks = 25**

1. Give brief answer to the following:
a) International financial management Vs domestic financial management. [5]
b) Bretton Woods System. [5]
c) Participants in the foreign exchange market. [5]
d) Interest Rate Parity [5]
e) Foreign Direct Investment. [5]

PART – B **5 × 10 Marks = 50**

2. What are 'Multinational Corporations' (MNCs) and what economic roles do they play? [10]

OR

3. Define and explain the theory of comparative advantage. [10]

4. Proton, Inc. is a U.S.-based multinational manufacturing firm, with wholly owned subsidiaries in Brazil, Germany, and China, in addition to domestic operations in the United States. Proton is traded on the NADSAQ. Luzon currently has 650,000 shares outstanding. The basic operating characteristics of the various business units are as follows:

		US Parent	Brazilian	German	Chinese
		Company	Subsidiary	Subsidiary	Subsidiary
Business Performance (000s)		(US$)	(reals, R$)	(euros, €)	(yuan, Y)
Earnings before taxes, EBT (local currency)		4,500.00	6,250.00	4,500.00	2,500.00
Tax rate		35%	25%	40%	30%
Avg exchange rate for the period (per USD)		------	1.8000	0.7018	7.7500

Required:
a) Determine the Net Profit from each unit in local currency
b) Determine the Consolidated Net Profit for the Parent in USD
c) Determine the EPS in USD. [10]

OR

5. Explain the structure and importance of Balance of Payments statement. [10]

6.a) Suppose the United States and Great Britain are on the gold standard and the price of gold in the U.S. is fixed at $1322 per ounce and the price of gold in Britain is fixed at £975. What exchange rate must prevail between the dollar and the pound?

b) In Brussels, one can buy a U.S. dollar for €0.8200. In New York, one can buy a euro for $1.22. What is the foreign exchange rate between the dollar and the euro?

c) In December 1994 the government of Mexico officially changed the value of the Mexican peso from 3.2 pesos per dollar to 5.5 pesos per dollar. What was the percentage change in its value? Was this a depreciation, devaluation, appreciation, or revaluation? Explain.

d) The spot rate for Mexican pesos is Ps10.74/$. If your company buys Ps350, 000 spot from your bank on Monday, how much must your company pay and on what date? [10]

OR

7. Explain the use of Currency Futures and Currency Options in exchange rate risk management. [10]

8. Bright Research Institute of USA sold a super computer to the Shine Pharma in Germany on credit and invoiced €10 million payable in six months. Currently, the six-month forward exchange rate is $1.10/€ and the foreign exchange advisor for Bright Research predicts that the spot rate is likely to be $1.05/€ in six months.
a) What is the expected gain/loss from the forward hedging?
b) If you were the financial manager of Bright Research, would you recommend hedging this euro receivable? Why or why not?
c) Suppose the foreign exchange advisor predicts that the future spot rate will be the same as the forward exchange rate quoted today. Would you recommend hedging in this case? Why or why not?
d) If Bright Research sells forward €5 million at the given forward rate and the balance is sold at the expected spot rate of $1.05/ €, what will be the total USD value of the receivable? [10]

OR

9. Explain various parity theories that are helpful in determining the exchange rate. [10]

10. Discuss the steps involved in capital budgeting decision for a Multinational Company. [10]

OR

11. A multinational firm can use Bilateral Netting and Multilateral Netting to effectively manage its foreign currency cash flows. Explain with suitable examples. [10]

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