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Code No: 724AG

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA IV Semester Examinations, April/May-2019
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.a) Identify the main goal of an MNC and the potential conflicts with the goal. [5]
b) Briefly explain the role of International Monetary Fund (IMF) in facilitating international flows. [5]
c) What are the motives behind providing credit in foreign markets? [5]
d) Explain the potential feedback effects of a currency's changing value on inflation. [5]
e) Explain briefly how the financing decision can influence the sensitivity of the net present value (NPV) to exchange rate forecasts. [5]

PART - B **5 × 10 marks = 50**

2.a) Explain why political risk may cause set back to international business.
b) Examine the role of internet in facilitating international business. [5+5]

OR

3.a) Briefly explain how an MNC is valued?
b) Describe any two methods to conduct international business. [5+5]

4.a) Is a negative current account harmful to a country? Discuss.
b) Briefly explain the components of current account. [5+5]

OR

5.a) Explain the factors affecting FDI in India.
b) Examine critically the impact of Portfolio investment on MNCs. [5+5]

6.a) Compare and contrast forward and futures contracts.
b) Randy purchased a call option on British pounds for \$0.02 per unit. The strike price was \$1.45 and the spot rate at the time the pound option was exercised was \$1.46.Assume there are 31,250 units in a British pound option. What was Randy's net profit on this option? [5+5]

OR

7.a) Explain how currency futures can be by corporations and speculators.
b) Longer term currency options are becoming more popular for hedging exchange rate risk. Why do you think some firms decide to hedge by using other techniques instead of purchasing long-term currency options? [5+5]

8.a) Explain the concept of interest rate parity. Provide the rationale for its possible existence.
b) How can the central bank use direct intervention to change the value of a currency?[6+4]

OR

9.a) Explain the impact of foreign inflation on the value of the MNC.
b) Assume that the spot exchange rate of the British pound is $1.73.How will the spot rate adjust according to PPP if the United Kingdom experiences an inflation rate of 7 percent while the United States experiences an inflation rate of 2 percent? [5+5]

10.a) Briefly explain the following techniques for adjusting project assessment for risk:
i) Risk-adjusted discount rate. ii) Sensitivity analysis.
b) How is it possible for a firm to incur a negative effective financing rate?
c) The spot rate of the Australian dollar is $.62.The one-year forward rate of the Australian dollar is $.60.The Australian one-year interest rate is 9 percent. Assume that the forward rate is to forecast the future spot rate. Determine the expected effective financ ing rate for a US firm that borrows Australian dollars to finance its US business. [4+2+4]

OR

11.a) Why might a firm use a “local” capital structure at a particular subsidiary that differs substantially from its “global” capital structure?
b) Read the following caselet and answer the questions that follow:
Samll Business Dilemma: Multinational Capital Structure Decision at the Sports Exports Company
The Sports Exports Company (USA) has considered a variety of projects, but all of its business is still in the United Kingdom. Since most of its business comes from exporting of footballs (denominated in pounds), it remains exposed to exchange risk. On the favorable side, the British demand for its footballs has risen consistently every month. Jim Logan, the owner of the Sports Exports Company, has retained more than $100,000(after the pounds were converted in to dollars) in earnings since he began his business. At this point in time, his capital is mostly his own equity, with very little debt. Jim has periodically considered establishing a very small subsidiary in the United Kingdom to produce the footballs there (so that he would not have to export them from the US).If he does establish this subsidiary, he has several options for the capital structure that would be to support it.:
(i) use all of his equity to invest in the firm
(ii) use pound- denominated long term debt, or
(iii) use dollar denominated long term debt. The interest rate on British long-term debt is slightly higher than the interest rate on US long term debt.
Questions:
A) What is the advantage of using equity to support the subsidiary? What is a disadvantage?
B) If Jim decides to use long-term debt as the primary form of capital to support this subsidiary, should he use dollar-denominated debt or pound-denominated debt?
C) How can the equity proportion of this firm’s capital structure increase over time after it is established? [10]

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