

PG – 607

IV Semester M.B.A. Degree Examination, July 2018

(CBCS Scheme)

MANAGEMENT

4.2.2/4.6.2 : International Financial Management

Time : 3 Hours

Max. Marks : 70

SECTION – A

Answer any five of the following questions. Each question carries five marks.

(5×5=25)

1. Write a short note on the evolution of International Monetary System.
2. What is 'Balance of Payments' ? Explain its relationship with the different economic variables.
3. Explain Interest Rate Parity Theory and International Fisher Effect.

4. The following quotes are available :

Spot (DM/\$) 1.5105/1.5120

Three-month swap points 25/20

Six-month swap points 30/25

Calculate the three-month and six-month outright forward rates.

5. A Bank sold Hong Kong Dollars 40,00,000 value spot to its customer at Rs. 7.15 and covered itself in London market on the same day, when exchange rates were :

US\$ = HK\$ 7.9250 – 7.9290

Local interbank market rates for US\$ were

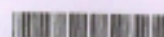
Spot US\$1 = Rs. 55.00 – 55.20

You are required to calculate rate and ascertain the gain or loss in the transaction. Ignore brokerage. You have to show the calculations for exchange rate up to four decimal points.

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6. If the present rate for 6 months borrowings in India is 9% per annum and the corresponding rate in USA is 2% per annum and the US\$ is selling at Rs. 64.50/\$, then
- Will US\$ be at a premium or at a discount in the Indian Forward Market ?
 - Find out the expected 6 month forward rate for US\$ in India.
 - Find out the rate of forward premium/discount.

7. Following information is available in respect of a put option on £:

Strike price \$ 1.50/£

Option premium \$0.04 per £

Spot rate on strike date \$ 1.40/£

Find the pay off of the buyer and seller of the put option given that one option contract cover 10000 units of £.

SECTION - B

Answer **any three** questions. **Each** question carries **ten** marks. (3×10=30)

8. What is Foreign Exchange Risk ? State and explain the various types of Foreign Exchange Risk with examples. Briefly explain the "internal techniques" for Mitigating Transaction Risk.

9. Companies A and B have the following interest rates :

	A	B
US Dollars (floating rate)	LIBOR + 0.5%	LIBOR + 1%
Canadian (fixed rate)	5.0%	6.5%

A wants to borrow US Dollars at a floating rate of interest and B wants to borrow Canadian dollars at a fixed rate of interest.

A financial institution is planning to arrange a swap and requires a 50 basis point spread. If the swap is equally attractive to A and B, what rates of interest will A and B end up paying ?



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10. Explain ADR's and GDR's as tool/instrument of financial investments in Foreign Market.
11. Indus Ltd. is the wholly owned Indian subsidiary of US based company, Gofts Ltd. non-consolidated Balance Sheets of both Gofts Ltd. and Indus Ltd., (only foreign operations), in thousands, are as follows :

Assets	Gofts Ltd.	Indus Ltd. (Affiliate)
Cash	\$2,200	Rs. 8,000
Accounts receivable	2,400	4,600
Inventory	2,400	7,000
Net plant and equipment	4,600	9,000
Investment	2,000	—
Total	\$13,600	Rs. 28,600

Plant and equipment and common stock were acquired when exchange rate was Rs. 38.20/\$.

Liabilities and Net Worth	Gofts Ltd. (parent)	Indus Ltd. (Affiliate)
Accounts payable	\$1,000	Rs. 12,000
Common stock	4,000	6,000
Retained earnings	8,600	10,600
Total	\$13,600	Rs. 28,600

The current exchange rate is Rs. 43.20/\$. Gofts Ltd. translates by current rate method.

- a) Calculate the accounting exposure for Gofts Ltd. by the current rate method and monetary/non-monetary method.
- b) Prepare a consolidated Balance Sheet for Gofts Ltd. and Indus Ltd.

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SECTION - C

 This is a **compulsory** question carrying **fifteen** marks :

(1×15=15)
12. Case study :

ABC Ltd., a US firm, will need £ 5,00,000 in 180 days. In this connection, the following information is available :

Spot Rate 1 £ = \$ 2.00

180 days forward rate of £ as of today is \$ 1.96.

Interest rates are as follows :

	U.S.	U.K.
180 days deposit rate	5.0%	4.5%
180 days borrowing rate	5.5%	5.0%

A call option on £ expires in 180 days has an exercise price of \$ 1.97 and a premium of \$ 0.04.

ABC Ltd., has forecasted the spot rates for 180 days as below :

Future Rate (\$)	1.91	1.95	2.05
Probability	30%	50%	20%

Which of the following strategies would be most preferable to George Ltd. ?

- A forward contract
- A money market hedge
- An option contract
- No hedging option.