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P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belagavi)

Fourth Semester, Master of Business Administration (MBA)

Semester End Examination; May/June - 2018

International Financial Management

Time: 3 hrs *Max. Marks: 100*

***Note**: i) Answer all **FOUR** full questions from **PART - A** and **PART - B** (Case study) is compulsory.*
ii) Issue of Specific Hand books, charts, Tables are permitted.

PART - A

1 a. Write about International Business Methods? 10

b. Write about the goal of MNC and conflicts against the MNC Goal. 10

OR

2 a. Write about the International Trade Flows and factors affecting International Trade flows. 10

b. Brief about Balance of Payments. How do you correct a balance of Trade Deficit? 10

3 a. Calculate the cross rates between GBP/CAD, if the exchange rates are between USD/CAD = 1.2774/1.2778 and GBP/USD = 1.3992/1.3996. 10

b. Discuss about the Current Exchange Rate Arrangements. 10

OR

4 a. Determine the outright rates, Indicate the spread with Percentage (%) and Forward premium or Discount for the following: 10

INR/ USD = 65.077 / 65.087 1 month = 225/ 275

2 months = 300/330, 3 months = 375/455, 6 months = 475/495

b. Write about Interest arbitrage and the Fisher Effects. 10

5 a. From the particulars of a bank. Find out the possibility of arbitrage for $ 10,000 10

Spot rate of INR: USD is 42.0010 = 1$; 6 months forward rate `42.8020:1$

Annualized interest rate on 6 months ` is 12%; Annualized interest rate on 6 months $ is 8%.

b. Write about translation exsposure, transaction exposure and operating exposure. 10

OR

6 a. In New York 1$ = 1.4122 AUD; In London 1$ = 1.8188CAD; In Sydney 1AUD= 1.1011CAD Is there any arbitrage benefit? (Consider 1000 value of currency is used to calculate arbitrage). 10

b. Discuss about the Hedging strategies. 10

7 a. You are required to prepare BOP showing clearly all the balances from the following data: 10

i) US corporation of USA invest in India ` 3,00,000 to modernize its Indian subsidiary

ii) A tourist from Egypt buys a sovereign worth of ` 3,000 to carry with him. He also pays hotel and travel bill of ` 5,000 to the Delhi tourist agency

iii) The Indian subsidiary of US corporation sells, a parts of its production in other Asian countries for ` 1,00,000

iv) This Indian subsidiary of the US corporation remits as usual `5,000 as a dividend to its parent company in USA

v) The Indian subsidiary borrows a sum of ` 2,00,000 (to be paid back in 1 year) from the

vi) Germany money market to resolve its urgent liquidity problem

An Indian company buy a M/c for ` 1,00,000 from Japan and 60% payment is made immediately. The remaining amount is to be paid after 3 years.

An Indian subsidiary of French company borrows ` 50,000 from the Indian public to invest in its modernization problem.

b. Write about Swamps and its types. 10

OR

8 a. If the $:¥ spot rate is 1$ = 110¥ and the interest rates in the Tokyo and New York is 3% and 4.5% respectively. What is the expected $:¥ exchange rate after 1 year ii) USA inflation rate is expected to be average of 4% annually. While the Indian rate of inflation is expected to average about 12% annually. If the current spot for INR is $ 0.00285, what is the expected spot rate in 2 years? 10

b. How do you forecast exchange rates? 10

PART - B (Case Study) Compulsory

9. A French importer has brought equipment from an US firm for US 1 million on 1st March in the current year to be paid in next 3 months. The importer fears an appreciation of the U.S. $. He decide to cover himself in the option market the data are;

Exchange rate FFR 5.00/ USD $ or USD $ 0.20/ FFR

He is considering the call option for the purpose as well required to buy foreign exchange (i.e., USD $) the characteristics of call options are; Strike price FFR 5.05/$ Premium 3%, Maturity date 1st June.

Discuss the situation of the importer given the 3 scenario:

a. The USD has appreciated and the spot rate is 5.5/$ 10

b. The currency has undergone the depreciation and on 1st June is at FFR 4.75/$.
The USD $ is at FFR 5.05/$ 10

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