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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 - 2019

International Financial Management

Time: 3 hrs *Max. Marks: 100*

***Note**: Answer all **FOUR** full questions from **PART - A** and **PART - B** (Case study) is compulsory.*

PART - A

1 a. Critically evaluate Purchasing parity theory. 10

b. Explain currency options in detail. 10

OR

2 a. Why do fixed rate system was replaced by the floating exchange rate system? 10

b. The following spot prices are observed in New York market;

USD/CHF – 1.6345/50; USD/JPY – 125.35/45 10

In Geneva market CHF/JPY spot is quoted at 74.65/85. Is there any arbitrage opportunity?

3 a. Enumerate on different theories of foreign exchange rate determination. 10

b. Differentiate between AE and EE, discuss the transactional method. 10

OR

4 a. State the functions of IMF. 10

b. Explain the concept of parallel loans and currency swaps. 10

5 a. Record the following transactions and prepare the BOP statement; 10

i) A US firm exports $1000 worth of goods to be paid in six months.
ii) A US resident visits London and spends $400 on hotel, meals and so on.
iii) US government gives a US bank balance of $200 to the government of a developing nation as part of the US aid programme.
iv) A US resident purchase foreign stock for $800 and pays for it by increasing the foreign bank balance in the US.
v) A foreign investor purchase $600 of united state treasury bills and pay by drawing down his bank balance in the united state by an equal amount.

b. Compaque Industries is the French manufacturing subsidiary of a US corporation. 10

Compaques balance sheet in thousands of French francs is as follows:

Cash	FFr1440	Account Payable	FFr1000
Accounts receivable	10600	Notes payable	10000
Inventory	12000	Long term debt	11800
Net plant and equipment	16000	Shareholder's equity	20200
Total	52000	Total	52000

Current spot exchange rate : FFr6.00/$; Six month forward exchange rate FFr6.60/$

Managements forecast of spot rate in six months FFr6.90/$

What is Compaque's transaction exposure by the current rate method and monetary / non-monetary method?

OR

6 a. A foreign exchange trader gives the flowing quotes for the Euros spot, 1 month, 3 month and 6 months to a US based trader spot rate $ 0.02368/70, 4/5, 8/7, 14/12, calculate the out rate quotes and their Bid Ask spared. 10

b. An investor wants to invest 500 US $ by using covered interest arbitrage following interest available spot rate INR 62.00 per $ 90 days forward rate INR 62.25 $ Indian interest rate 12%p.a., US interest rate 4% p.a., should he invest in money in Indian or USA, What should be the forward rate at which there will be no arbitrage possibility? 10

7 a. Company ABC and XYZ have been offered the following rates per annum on a `50 lakhs five year loan; 10

Particulars	Fixed Rate	Floating rate
Company ABC	9.0%	Mibro +0.3%
Company XYZ	10.8%	Mibro + 0.8%

Company ABC requires a floating rate loan. Company XYZ requires a fixed rate loan.

i) How can two companies enter into a swap arrangement in which each benefit equally?

ii) What risk could this arrangement generate?

b. If the inflation rate in India and USA over the year are expected to be 6.5% and 3% respectively, the current $ rupee exchange rate is ` 42.50 per $ the interest rate likely to be 4% in the USA and 7.5% in India. 10

i) What would be the dollar rupee exchange rate after 2 years?

ii) What would be the 90 days forward rate?

iii) What would be the dollar rupee exchange rate?

OR

8 a. Spot rate = `44.0030 per $; 6 month forward rate = `45.0010 per $

Annualized interest rate on 6 months rupee = 12% 10

Annualized interest rate on 6 months dollar = 8%

Given the above data, is there an arbitrage possibility?

b. Explain the factors influencing International Trade. 10

PART-B (Case study – Compulsory)

9. Suppose spot rate is `40 per $, 90 days forward rate is `39.50 per $. Interest on borrowing in India and USA 6% p.a., interest rate on deposit on investment is 5% p.a. 90 days call option is having strike price of 39.60 per $ and premium of `0.05 per $. A 90 days put option is having exercise price of 39.80 per $ and premium of 0 05 per $. Spot rate at 90th is 39.80 per $. Discuss the following alternative as applied to an importer and an exporter. 20

i) No Hedge ii) Hedging in the forward market

iii) Hedging in the money market iv) Hedging in the currency option market

v) Considered goods worth of $1,000

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