



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; Aug. / Sep. - 2020

International Financial Management

Time: 3 hrs

Max. Marks: 100

Note: i) Answer any **ONE** full question among Q.1 and Q.2 in PART - A.

ii) Answer any **THREE** full questions among Q.3 to Q.8 in PART - A.

iii) Q.9 in PART - B (Case Study) is compulsory.

iv) Scientific calculators shall be allowable.

PART - A

- 1 a. Write a note on current exchange rate arrangement. 10
- b. Write a note on : 10
- i) Euro ii) SDR

OR

- 2 a. Summarize the differences between International Financial Management and Domestic Financial Management. 10
- b. Discuss the distinct features of International Financial Management. 10
- 3 a. Explain any four methods by which firms can conduct International Business. 10
- b. Discuss any two agencies that facilitate the International Trade. 10
- 4 a. Explain the components of BOP. 10
- b. From the following data given, prepare BOP;
- i) An exporter sells watches to Russia for ₹ 500000/-. Exporter expects ₹ 50000/- cash and remaining as one year bill of exchange
- ii) Mohan an Indian goes to Srilanka on vacation with ₹ 2000/-. He spends ₹ 1100/- on service required and bought gift ₹ 900/- to bring with me
- iii) An Indian company imports clock worth ₹ 5000/- from Nepal 10
- iv) Karim from Bangladesh imports to India apparels with ₹ 1000/-
- v) ABC company of India decides to invest ₹ 600000/- in Malaysia to establish business unit, half of the investment to made in cash and the remaining half by selling the bonds in Franc
- vi) Profits made by the subsidiaries of ABC Co., is ₹ 20000/- of which 25% is remitted to the parent company in India
- 5 a. A foreign exchange trader gives the following quotes for the euro spot, one month, three months and six months to a US based treasurer as, \$ 0.02368/70, 4/5, 8/7, 14/12 respectively. 10
- Calculate outright quotes for one, three and six month forward and spread.
- b. Write a note on cross rate and interest rate arbitrage. 10

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- 6 a. Differentiate between Speculation and Hedging. 10
 b. The following exchange rate and one year interest rates exist :

	Bid Quote	Ask Quote
Euro spot	\$ 1.12	\$ 1.13
Euro one – year forward	1.12	1.13
	Deposit Rate	Loan Rate
Interest Rate on dollars	6.0%	9.0%
Interest Rate on Euro's	6.5%	9.5%

You have \$ 100000 to invest for one year. Would you benefit from engaging in covered interest arbitrage? 10

- 7 a. Explain the PPP theories of Exchange rate. 10
 b. Discuss the factors that affect/influence exchange rate equilibrium. 10
 8 a. What is Transaction Exposure? Explain the steps involved in measuring Transaction exposure. 10
 b. A farm product is the Canadian affiliate of a US manufacturing company. Its balance sheets in thousands. If Canadian dollars, for Jan 1, 2018 is as below. The Jan. 2018 exchange rate was C\$ 1.6 / \$.


Farm products Balance sheet (Thousands of C\$).

Particulars	Debit (C\$)	Credit (C\$)
Assets		
Cash	100000	
Accounts Receivables	220000	
Inventory	320000	
New Plant and Equipment	200000	
Total	840000	
Liabilities		
Current Liabilities		60000
Long-term debt		160000
Capital stock		620000
Total		840000

- i) Determine Farm products accounting exposure on Jan. 2019, using the current rate method
 ii) Calculate the Farm products contribution to its parent's accounting loss, if the exchange rate on Dec. 31, 2019 was C\$ 1.8 per \$. Assume all accounts remain as they were at the beginning of the year. 10

PART - B (Case study - Compulsory)

9. Sport rate = ₹ 44.0030 per \$
 6 month Forward rate = ₹ 45.0010 per \$
 Annualized interest rate on 6 months rupee = 12%
 Annualized interest rate on 6 months dollar = 8%.
 Given the above data is there an arbitrage possibility?


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