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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; July / Aug. - 2022

International Financial Management

Time: 3 hrs

Max. Marks: 100

Course Outcomes

The Students will be able to:

CO1: To inculcate the knowledge about basic concepts of Portfolio management.

CO2: The students understand the various Portfolio Theories.

CO3: To make the students learn the process of Portfolio Contraction. Also to make them aware of Portfolio Revision Strategies.

CO4: To make the students learn to evaluate the Performance of Portfolio.

CO5: To inculcates the knowledge o Mutual Funds & its functioning. Also to understand the concept of Behariourel Finance.

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

II) Scientific calculator is allowed.

Q. No.	Questions	Marks	BLs	COs	POs
PART - A					
1 a.	Discuss the various methods to conduct international Business.	10	L4	CO1	PO2
b.	How is international financial management different from domestic financial management	10	L1	CO1	PO4
OR					
2 a.	What are the objectives of Asian Development Bank?	10	L1	CO1	PO2
b.	Briefly explain the Breton woods system	10	L2	CO1	PO1
3 a.	Briefly explain about the balance of payments statement.	10	L2	CO2	PO2
b.	Record the following transactions and prepare the balance of payment statement.				
	i) A US firm exports \$ 1000 worth of goods to be paid in six months				
	ii) A US resident visit London and spends \$ 400 on hotel. Meals and so on				
	iii) US government gives a bank balance of \$ 200 to the government of a developing nation as part of the US aid programme	10	L4	CO2	PO4
	iv) A US resident purchases foreign stock for \$ 800 and pays for it by increasing the foreign bank balances in the US				
	v) A foreign investor purchases \$ 600 of United states treasury bills AND pays by drawing down his bank balances in the united states by an equal amount				

OR

- 4a. Discuss in detail the various (parts) components of Balance of Payment. 10 L4 CO2 PO2
- b. Explain the various factors influencing international trade flows. 10 L2 CO2 PO5
- 5 a. Briefly discuss the three most popular derivative instruments. 10 L4 CO3 PO3
- b. The annual interest rate in U.S is 9 percent and in Europe is 10 percent the Euro spot rate is 2.065\$ and 3 months forward rate 1.0998\$.
- i) Does interest rate parity exist? 10 L2 CO3 PO4
- ii) Can US firm benefit from investing funds in Europe using CIA?
- iii) Can a European subsidiary of a US firm benefit by investing funds in the US through CIA?

OR

- 6 a. Explain the purchasing power parity theory and the rationale behind it. 10 L1 CO4 PO2
- b. You have called your foreign exchange trader and asked for quotations on the spot, one – month three – month and six – month. The trader has responded with the following:
\$ 0.024479/81 3/5 8/7 13/10
- i) What does this mean in terms of dollars per Euro?
- ii) If you wished to pay spot Euro, how much would you have to pay in dollars? 10 L1 CO4 PO3
- iii) If you wanted to purchase spot US dollars, how much would you have to pay in Euro?
- iv) What is the premium or discount in the one, three and six – month forward rates in annual percentages? (Assume you are buying Euros).
- 7 a. Differentiate between transaction Exposure & economic exposure. 10 L5 CO5 PO4
- b. i) Given the following data US / JPY 103.49 / 111.56 and Euro / JPY 139.44 / 143.789. Estimate the cross rate of USD / EUR.
- ii) Estimate the % spread from the following information
Spot rate 45.7385/ 93 INR 10 L4 CO5 PO2
1 month forward rate 20/25
3 month forward rate 30/28
6 month forward rate 45/48

OR

- 8 a. Explain the various methods to reduce exchange rate risk 10 L2 CO5 PO1
- b. Shine products is the Canadian affiliate of a US manufacturing company. Its balance sheet, in thousands of Canadian dollars, for January 1, 2021 is shown below.

The January 2021 exchange rate was C\$ 1.6/\$.

Shine products balance sheet (Thousands of C\$).

Assets		Liabilities and Net worth	
Cash	C\$ 1,00,000	Current liabilities	C\$ 60,000
Accounts receivable	2,20,000	Long – term debt	1,60,000
Inventory	3,20,000	Capital stock	6,20,000
Net plant & Equipment	2,00,000		
Total	8,40,000		8,40,000

10 L4 CO5 PO2

Determine shine products accounting exposure on January 1, 2022, using the current rate method / monetary / non-monetary method.

PART - B Case Study is compulsory

9. LSE corporation hedges a portfolio of German government bonds with a six – month forward contract. The current spot rate is Euro. 65\$ and the 180 – day forward rate is DM. 61/\$. At the end of the six- month period the bonds have raisen in value by 3.50% (in Euro terms), and the spot rate is now Euro. 45/\$
- a. If the bonds earn interest at the annual rate of 5% paid semi – annually. What is the LS. Corporations total dollar return on the hedged bonds? 10 L1 CO4 PO2
- b. Calculate the return on the bonds without hedging? 5 L4 CO4 PO4
- c. Calculate the true cost of the forward contract? 5 L4 CO4 PO2

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