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

(An Autonomous Institution under VTU, Belgaum)

Fourth Semester, Master of Business Administration (MBA)

Semester End Examination; June - 2016

International Financial Management

Time: 3 hrs *Max. Marks: 100*

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

PART - A

1 a. How international financial management is different from domestic financial management? Explain. 10

b. Discuss the various international Business methods to conduct international business activities. 10

OR

2 a. Explain the role and functions of International monetary Fund. 10

b. With respect to the Bretton wood system, Explain, 10

- The role of dollar
- The immediate cause of its collapse
- The fundamental cause of its collapse.

3 a. Explain official reserves account and its components. 10

b. Briefly explain the balance of payment statement. 10

OR

4 a. Explain the various factors affecting country Risk analysis. 10

b. Explain the functions of foreign exchange market. 10

5 a. You have called your foreign exchange trader and asked for quotations on the Belgian France spot. One-month, three-month and six-month. The trader has responded with the following: 10

$0.02479/81 3/5 8/7 13/10

i) What does this mean in terms of dollars per Belgian Franc?

ii) If you wished to buy spot Belgian France, how much would you pay in dollars?

iii) If you wanted to purchase spot U.S. dollars, how much would you have to pay in Belgian francs?

iv) What is the premium or discount in the one, three and six-month forward rates in annual percentages?

(Assume you are buying Belgian France).

Contd….2

b. i) Assume the following information : 5

Spot rate of £ = $ 1.60

180 – days forward rate of £ = 1.56

180 – days British interest rate = 4%

180 – days U.S. Interest rate = 3%

Based on the information is covered interest arbitrage by U.S. Investors feasible? Explain.

ii) Is devaluation good for exports and imports? Why is the impact of devaluation usually not immediate? 5

OR

6 a. Define Interest Arbitrage and explain the types of interest arbitrage. 10

b. Spot rate = Rs. 44.0030 = $1

6 month FIR = Rs. 45.0010 = $1

Annualised interest rate on 6 month rupee = 12% 10

Annualised interest rate on 6 month dollar = 8%

Given the above data, is there an Arbitrage possibility?

7 a. Explain the rationale behind purchasing power parity theory. 10

b. What are the techniques for minimizing economic exposure? Discuss. 10

OR

8 a. XYZ Bank is seeking fixed-rate funding. It is able to finance at a cost of six-month LIBOR + ¼% FOR £100 million for 5 years. The bank is able to swap into a fixed rate at 8.50%. Versus six month LIBOR. Treating 6 months as exactly half a year.

i) Set out the cash flows involved. What will be the all-in cost of funds to XYZ Bank?

ii) Another responsibility being considered as the issue of a 'hybrid' instrument which pays 8.50% for the first 3 years and LIBOR – ¼% for the remaining 2 years. Given a three year swap rate of 9% indicate in general terms the method by which the bank would achieve fixed-rate funding. 10

iii) In principle, without calculating the cash flows involved, does this deal seem attractive?

iv) Briefly outline the risks which would be involved for the bank in such a funding operation.

b. Nasir Hussain, a trader at one of the major banks in New York, has received information from the economic research department of his bank that short-term interest in united states are bound to increase by 100 basis points within a month (100% points equal 1%).

1 year treasury bill rates : 10

United states 6.45%,

Canada 4.46%,

Spot rate : $ 0.996800/ Canadian dollar

Contd….3

Forward rate :

1 year $ 1.016636

1 month $ 0.998453

I) What is the premium or discount on the Canadian dollar?

II) What does the new information mean in terms of futures rates? If the trader is bound by the rule "buy equals sell" what opportunities does he have to profit for the information given to him by economic research department?

III) What are the costs or gains of such alternatives :

i) If the U.S. interest rate increases to 7.45% within a month?

ii) If interest rates remain constant?

iii) If spot Canadian dollars on day 30 were $0.9500?

IV) What course of action would you advise the trader to follow?

PART – B

Case Study (Compulsory)

9. ABC House Ltd manufactures arrange Marmalade in England. It is the wholly owned subsidiary of XYZ Inc of USA. The functional currency for ABC is the pound sterling which currently sells at $ 1.5000/£. The reporting currency for XYZ is the US dollar. Non-consolidated financial statements for both ABC and XYZ are as follows (in thousands) :

Assets	XYZ Inc	ABC LTD
Cash	$8,000	£ 2,000
Account Receivable	10,000	4,000
Inventory	8,000	2,000
Net Plant and equipment	10,000	6,000
Investment	4,500	
Total	$ 40,500	14,000

Liabilities and Net worth :

Current liabilities	$ 22,000	£ 14,000
5-YEAR term loan		4,000
capital stock	9,000	2,000
Retained Earnings	$ 9,500	4,000
Total	$ 40,500	£ 14,000

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a. Prepare a consolidated balance sheet for XYZ Ltd.

b. What is ABC Ltd accounting exposure in dollars?

Use the current rate method of calculation.

c. Before any business activities take place, the pound sterling depreciates 90/b in value relative to the dollar. What is the new spot rate?

d. What is XYZ accounting loss or gain, if any, by the current rate method/monetary/non-monetary method?

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