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

(An Autonomous Institution affiliated to VTU, Belgaum)

Fourth Semester – Master of Business Administration (MBA)

Semester End Examination; June/July - 2015

International Financial Management

Time: 3 hrs *Max. Marks: 100*

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

PART – A

1 a. Explain the reasons for rapid growth of International Business. Explain the various methods used by multinational companies to establish their presence in foreign countries. 10

b. Define Agency problem. How does it affect firm's objectives? 10

OR

2 a. Compare and contest various exchange rate systems. 10

b. State the factors that influence exchange rates. 10

3 a. Briefly explain the balance of payment statement. 10

b. For the given data, calculate Arbitrage possibilities.

Spot 1$ = ₹ 42.0010

6 months forward 1$ = ₹ 42.8020 10

Annualized interest rate on 6 months Rupee : 12%

Annualized interest rate on 6 months Dollar : 8%

OR

4 a. The six month interest rate for Canadian dollar is 9% while the six month interest for US$ is 6.75%. At the same time the spot Canadian $ quotation in Newyork is US$= 0.9100 and the six months forward rate is US $0.9025. 10

a. Is there interest rate parity?

b. If not how could advantage is taken of the situation.

b. Compare the related theories of International finance, namely PPP, IFE and IRP. 10

5 a. Explain various foreign currency Hedging strategies. 10

b. SUV Ltd, is the Indian affiliate of the US sport manufacturers, SUV manufacturer items which are sold primarily in the United states and Europe. SUV's balance sheet is as follows: 10

Cash	₹ 6,000	A/P	₹ 3,500
A/R	₹4,500	St Bank Loan	₹1,500
Inventory	₹4,500	Long Term Loan	₹4,000
Plant	₹10,000	Capital stock	₹10,000
		Retained Earnings	₹6,000
	₹ 25,000		₹ 25,000

Contd…2

Exchange rate for translating are :

₹ 35/$ Historic rate

₹ 40/$ March 31 Exchange rate

₹ 42/$ April 42 April 1 Exchange Rate

Calculate accounting gain or loss by current rate method and by monetary/non monetary method.

OR

6 a. An MNC has accounts receivable of $ 1.8 bn. And accounts payable of $ 940 Million. It has also borrowed $ 700 million. The current spot rate is $ 1.8138/£

i. What is the MNC's dollor transaction exposure in dollar terms? In Pound terms? 10

ii. Suppose the Pound appreciate to $ 2.1122/£, what is the MNC's gain or loss in Pound exposure and on its dollar transaction exposure?

b. Jason Co. in US will need 400,000 C$ in 90 days. The company wishes to hedge its payables. Suggests appropriate hedge using the following information.

90 day US interest rate = 4%

90 day Canada interest rate = 3% 10

90 day Fwd rate of Canadian dollar = $ 0.400

Spot rate of Canadian dollar = $0.405

7 a. Explain the strategies to manage economic exposure. 10

b. Explain the following: 10

i) Netting ii) SDR's iii) International Fisher's effect iv) CDS v) ADR's

OR

8. A US based software consulting firm having offices in India, the UK, Europe and Australia. In 2014, the company required £ 100,000 in 180 days. It has the following data

Current spot rate of Pound = $ 1.50 , 180 day forward rate of pound = $ 1.48

Interest rates were as follow:

	UK	US
180 day deposit rate	4.5%	4.5%
180 day borrowing rate	5.1%	5.1%

A call on pound for exercise price of $1.49 Premium of 0.03$ 20

A put on Pound for exercise price of $1.50 $ a Premium of $ 0.02

The future spot rates in 180 days were forecasted as follows:

Possible Outcome	Probability
$1.44	20%
$1.46	60%
$ 1.53	20%

Analyse various hedging techniques.

PART – B
Case Study (Compulsory)

9. ABC House ltd manufactures Orange 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 sell at $ 1.5000/£ The reporting currency for XYZ is the U.S. 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	
	$ 40,500	£ 14,000

20

Liabilities and Network	XYZ Inc	ABC Ltd
Current Liabilities	$ 22,000	£ 4,000
5 – year term loan		4,000
Capital Stock	9,000	2,000
Retained earnings	$ 9,500	4,000
	$ 40,500	£ 14,000

i. Prepare a consolidated balance sheet for XYZ Ltd.

ii. What is ABC Ltd's accounting exposure in dollars? Use the current rate method of calculation.

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

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

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