IV Semester M.B.A. Degree Examination, October 2020
(CBCS Scheme) (2014-15 and Onwards)
MANAGEMENT
Paper – 4.2.2/4.6.2 : International Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any five** of the following questions : **(5×5=25)**

1. Explain Purchasing Power Parity Theory and International Fisher Effect.

2. Explain the different types of accounts maintained under Balance of Payments with its components.

3. Explain evolution of International Monetary System.

4. a) An importer has purchased from Brazil goods worth Brazilian Real 20,000. There is no quote available for INR vs BRL. The quote available are :

   USD = Rs. 72.78/98

   USD = BRL 5.05/30

   What is the value of this transaction in Rupee terms ?

   b) Distinguish between American and European quotation.

5. Company 'A' wishes to borrow 10 million at a fixed rate for 5 years and has been offered 11% fixed or 6-month LIBOR + 1%. Company B wishes to borrow 10 million at a floating rate for 5 years and has been offered 10% fixed or 6-month LIBOR + 0.5 %. How do they enter into a Swap agreement in which each benefit equally ? What risk did this arrangement generate ?

6. D company is Canadian affiliate of US manufacturing company, its balance sheet in thousands of Canadian dollar for 01/01/2019 is shown below :

Liabilities	**CAN$ Rs.**	**Assets**	**CAN$ Rs.**
Current Liabilities	60,000	Cash	1,00,000
Long term Debt	1,60,000	Account Receivables	2,20,000
Capital Stock (Net Worth)	6,20,000	Inventory	3,20,000
		Net Plant and Machinery	2,00,000
Total	**8,40,000**	**Total**	**8,40,000**

The expected rate as on 01/01/2019 was CAN$ 1.6/$

a) Determine D's accounting exposure on 01/01/2020 using current rate method.

b) Calculate D's contribution to its parents accounting loss if the expected rate on 31/12/2019 was CAN$ 1.8/$. Assume all account to remain as they were in beginning of the year.

7. a) The dollar is currently trading at Rs. 70. If Rupee depreciate by 10%, what will be the spot rate ? If dollar appreciates by 10%, what will be the spot rate ?

b) The exchange rate for Mexican Peso was 0.1086 in February 2019, and 0.0913 in January 2020, against dollar. Which currency has depreciated and by how much ?

SECTION – B

Answer **any three** of the following questions : **(10×3=30)**

8. Explain the importance of and motives for using International Credit and Financial Markets.

9. What is Foreign Exchange Risk ? Explain the internal techniques for mitigating Transaction Risk.

10. A foreign exchange trader quotes for Belgium Franc spot, 1-month, 3-month and 6-month forward rate to US based treasurer \$ 0.02478/80, 4/6, 9/8, 14/11
    a) Calculate the outright quote for 1, 3, 6 month forward.
    b) If treasurer wished to buy Belgium Franc 3-months forward, how much would you pay in Dollars ?
    c) If you wanted to purchase USD 1-month forward, how much would you have to pay in Belgium Franc ?
    d) Assuming Belgium Franc was bought what is the premium or discount in the 1, 3, 6 month forward rate in annual percentage ?
    e) What do the above quotations imply in respect of term structure of interest in USA and Belgium ?

11. Currency exchange rates and interest rates are as follows :

    Current Singapore dollar spot rate US\$ 0.55/S\$

    1-year Singapore dollar forward rate US\$ 0.56/S\$

    1-year Singapore dollar interest rate 4.5%

    1-year US interest rate 6.5%

    In what direction will Covered Interest Arbitrage (CIA) force the quoted rates to change ? Compute the profit based on \$ 1 million initial position.

SECTION – C

Compulsory question : **(15×1=15)**

1. GSR Ltd., has bought Swiss auto parts two months ago. GSR Ltd., will need SFr 1,00,000 in 180 days. GSR Ltd., wants to hedge its currency risk. It considers using :
    a) a forward hedge
    b) a money market hedge
    c) an option hedge
    d) no hedge

Its analysis develop the following information, which can be used to assess the alternative solutions :

a) Spot rate SFr as of today 0.68$/SFr

b) 180 day forward rate of SFr as of today 0.70$/SFr

c) Interest rate are as follows :

Deposit rates : 9% in Switzerland and 13% in the US

Borrowing rates : 10% in Switzerland and 14% in the US

d) A call option on SFr that expires in 180 days has an exercise price of 0.70$/SFr and a premium of $0.02.

e) A put option on SFr that expires in 180 days has an exercise price of 0.71$/SFr and a premium of $0.03.

f) GSR Ltd., uses the following distribution of exchange rates, in 180 days, to evaluate the hedging techniques :

S1+180	0.67	0.70	0.75
Probability	0.30	0.50	0.20

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