PG – 882

IV Semester M.B.A. Degree Examination, July 2017
(CBCS)
MANAGEMENT
Paper – 4.2.2/4.6.2 : International Financial Management

Time : 3 Hours Max. Marks : 70

Instructions : *Answer **all** Sections.*
*Marks are indicated **against each** Section.*

SECTION – A

Answer **any five** of the following questions. **Each** question carries **five** marks : **(5×5=25)**

1. List and briefly explain the various exchange rate regimes.
2. What is 'Balance of Payments' ? How is it calculated ? List the important components included in calculation of 'Balance of Payments'.
3. Compare and contrast Domestic and Off shore financial markets.
4. Assuming you are representing X Ltd., and the following rates per $ is quoted against SF.

Day	Quotes
1	1.6962/78
2	1.6990/70
3	1.7027/42

   a) On which day is it cheaper to buy US $ with respect to SF ?
   b) How many US $ do you need to buy 1000 SF on Day 1 ?
   c) What is the spread on Day 2 ?
   d) If you exchanged $ 2500 for SF 4256.75 on which day, did you exchange ? What transaction you made ?

5. Find the cross quote of Swiss Francs in India, given that

INR/USD	67.07/67.32
USD/SFr	0.7662/0.7703

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6. The rate of inflation in India is 8% per annum and in the USA it is 4%. The current spot rate for USD in India is Rs. 46. What will be the expected rate after 1 year and after 4 years applying the purchasing Power Parity theory ?

7. The following quotes are given for spot, 1 month, 3 months and 6 months Indian Rupee and US Dollar. Convert these into outright rates with corresponding spreads and also state whether rupee is quoted at premium or discount for each period.

Currency	Spot	1-month	3-months	6-months
Rs./US dollar	65.2321/2340	25/45	142/115	6/9

SECTION – B

Answer **any three** questions. **Each** question carries **ten** marks : **(3×10=30)**

8. Explain in detail the structure of Foreign Exchange Market. State and explain the different types of transactions and settlement dates in Foreign Exchange Markets.

9. Following information is given :

Exchange rate – Canadian Dollar 0.666 per DM (spot)
Canadian Dollar 0.671 per DM (3 months)

Interest rates DM 7.5% p.a.
Canadian Dollar 9.5% p.a.

To take the possible arbitrage gains, what operations would be carried out ?

10. Company ABC and XYZ have been offered the following rates per annum on a $200 million five year loan :

Company	Fixed rate	Floating rate
ABC	12.0	LIBOR + 0.1%
XYZ	13.4	LIBOR + 0.6%

Company ABC requires a floating-rate loan; company XYZ requires a fixed rate loan. Design a swap that will net a bank acting as intermediary at 0.1 per cent per annum and be equally attractive to both the companies.

11. Distinguish between forwards and schemes and explain the importance of these two in International Foreign Exchange Market.

SECTION – C

This is a **compulsory** question carrying **fifteen** marks : **(1×15=15)**

12. Case study :

Amte Ltd., has bought Swiss auto parts two months ago. Amte Ltd., will need S. Fr 1,00,000 in 180 days. Amte Ltd., wants to hedge its currency risk. Amte Ltd., considers using

a) a forward hedge,

b) a money market hedge,

c) an option hedge,

d) no hedge.

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

a) Spot rate of S.Fr as of today 0.68$/S.Fr.

b) 180-day forward rate of S.Fr as of today 0.70$/S.Fr.

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 S.Fr that expires in 180 days has an exercise price of 0.70 $/S. Fr and a premium of $0.02.

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

The expected spot rate at expiry would be 0.82$/S. Fr. Suggest the best choice for the financial manager, including remaining un-hedged.