PG – 932

IV Semester M.B.A. Degree Examination, July 2016

(CBCS)

MANAGEMENT

4.2.2/4.6.2 : International Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

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

1. Explain the importance International credit and financial markets.
2. Distinguish between forwards and futures.
3. Explain purchasing power parity theory and international fisher effect.
4. Explain the different types of accounts maintained under balance of payments with its components.
5. XYZ Ltd. is an Indian affiliate of US sports manufacturer. It manufacture items which has sold primarily in US and UK. XYZ Balance Sheet in 000' of Rs. as on 31st March 2015 follows :

Assets	**Amt (000' Rs.)**	**Liabilities**	**Amt. (000' Rs.)**
Cash	8,000	Accounts Payable	4,500
Accounts Receivable	6,500	Short term bank loan	3,500
Inventory	5,500	Long term loan	6,000
Net plant and equipment	20,000	Capital and Stock	20,000
		Retained Earnings	6,000
Total	**40,000**	**Total**	**40,000**

The exchange rate on 1st April 2014 is Rs. 70/$ and 31st March 2015 is Rs. 77/$. Determine the accounting exposure and accounting gain or loss under monetary and non-monetary method.

P.T.O.

6. The buying rate for Indian rupee spot in Newyork is 0.94 $. What would you expect the price of US $ to be in Mumbai, if the $ were quoted in Mumbai at Rs. 84. How is the market suppose to react ? On the same date that the Rs. Spot was quoted $ 0.94 in Newyork, the price of the Pound sterling was quoted $ 1.80.
   i) What would you expect the price of the pound to be in India.
   ii) If the pound were quoted in Mumbai at Rs. 93/pound what would you do to profit from the situation ?

7. You have called your foreign exchange trader and asked for quotations on the spot one, three and six months. The trader has responded with the following : $ 0.6284/85, 3/7, 9/8, 12/10.
   i) What does this mean in terms of $ per Euro ?
   ii) If you wished to buy spot Euros how much would you pay in $?
   iii) If you wanted to purchase spot US$ how much would you have to pay in Euro ?
   iv) What is the premium or discount in the one, three and six months forward rates in annual % (assume you are buying Euros).

SECTION – B

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

8. Describe the importance of International monetary system and stages of evolution.

9. a) On October 29th you have bought December futures on GBP on the price of $1.445. The contract size is £ 62,500. The initial margin is 5% for the next 3 days, the closing price of are $ 1.4490, $ 1.4460 and $ 1.4410. Determine the mark to margin profit or loss for the above 3 days and the balance in the margin A/c.

   b) If exchange rate at the end of 2014-15 is Rs. $ 43.91/US $ and if the rate of inflation in India and USA during 2015-16 is respectively 7 percent and 4 percent. Find :
      i) Inflation rate differential between the two countries and
      ii) The exchange rate at the end of 2015-16.

10. Discuss the evolution of European monetary system and its trends in the International money market.

11. An UK importer imports goods worth of US $ 5,000 from USA and he has to make payment after 90 days. The importing firm is expecting changes in the exchange rate and it thinks about selling a particular alternative. Spot rate £ 0.8/$, 90 days forward rate is £ 0.75/$, interest rates on borrowing in UK and USA is 5% p.a., Interest rate on deposits /investments is 4% p.a. in 90 days call option is having a strike price of £ 0.6 pounds at a premium of £ 0.05/$. In 90 days put option is having exercise price £ 0.65 and a premium of £ 0.05/$. Spot rate on 90th day is £ 0.78/$. Determine the hedging strategies and best option to the importer.

SECTION – C

12. **Compulsory** case study. **(1×15=15)**

The currency exchange rates and currency interest rates are as follows :

1-Year Canadian dollar (C$) Spot rate	$ 0.85/C$
1-Year Canadian dollar (C$) Forward rate	$ 0.86/C$
1-Year Canadian dollar (C$) Interest rate	5.5%
1-Year US Interest rate	7.5%

In what direction will Interest arbitrage force the quoted rates to change ? Explain the steps and compute the profit based on a $ 1 million initial position.