9744663

62243

Reg. No. | | | | | | | | |

IV Semester M.B.A. [Day] Degree Examination, October - 2021

MANAGEMENT

International Financial Management

(CBCS 2019-20 New Scheme)

Paper - 4.2.2

Time : 3 Hours **Maximum Marks : 70**

SECTION - A

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

1. How does exchange rate stability affect International Trade?

2. From the following information, find out whether there any triangular arbitrage opportunity that exists? (Assume you have Rs. 10,00,000)

   Rs/$ = 74.4020

   Rs/£ = 103.8400 and

   $/£ = 1.5010.

3. Suppose Sunshine plans to invest in Moon ltd, a British corporation that is currently selling for £ 60 per share. Sunshine has $ 1,25,500 to invest at current exchange rate of $2.15/1£

   a) How many shares can Sunshine purchase?

   b) What is his net return if the price of Moon ltd at the end of the year is 70 £ and the exchange rate at that time is $2.00/l£.

4. What are the foremost objectives of the European Monetary system? Explain

5. What are the methods used for translation of foreign currency financial statements? Explain.

6. Assume that 1 year Forward Rate is used as the forecast of the future Spot Rate .The FFr Spot Rate is $ 0.60, while its 1 year Forward Rate is $ 0.58,The French 1 year interest Rate is l2%.What is the expected effective yield on a year deposit in France by a US Firm?

[P.T.O.

7. You have called your foreign exchange trader and asked for quotation on the spot, 1- month, 3-month and 6-month forward rate. The trader has responded with the following

$ 0.3476/80, 3/5, 8/7, 13/10

a) What does this mean in terms of dollars per Euros?

b) If you wished to buy spot Euros, how much would you pay in Dollars?

c) If you wanted to purchase spot USD, how much would you have to pay in Euro?

d) What is the premium or discount in the 1, 3, 6 month forward rate in annual percentage?

SECTION - B

Answer any **THREE** of the following questions. Each question carriers **10** Marks**(3×10=30)**

8. Mani & Mani, a UK company, has recently invoiced a US customer the sum of $ 50,00,000 receivable in one year's time. MN finance director is considering two methods of hedging the exchange risk.

Methods 1: Borrowing present value of $ 5 million now for one year, converting the amount into sterling, and repaying the loan out of eventual receipts.

Methods 2: Entering into a 12- months forward exchange contract with the company's bank to sell the $5 million.

The spot rate of exchange is £ 1 = the US $ 1.6355.

The 12-month forward rate of exchange is £ 1 = the US $ 1.6125

Interest rates for 12 months are the USA 3.5%; UK 4%.

You are required to calculate the net proceeds in sterling under both methods and advise the company (ignore bank commissions).

9. Explain the differences between the balance of trade and the balance of payment discuss the components of the Balance of Payment.

10. Explain the present trends in Foreign Exchange Market and how IMF is helping their member countries during pandemic?

11. Given the following data spot rate Rs 74.50 per $, six months forward for Rs 77.00 per $. The annualized interest rate in India is 8%, and in the US, it is 4%. Find the arbitrage opportunity by using 10,00,000 units of currency for calculation purposes. Explain how this arbitrage opportunity will be settled.

SECTION - C

Case Study- Compulsory **(15)**

12. Zinc Pharma ltd an Indian based foreign MNC is evaluating an overseas investment proposal, Zinc Pharma ltd exporter of pharmaceutical products is considering to build a plant in United States the project will entail an initial outlay of $ 100 million and it is expected to give the following cash flow over its life of 4 years.

Years	Cash Flow (in million $)
1	40
2	30
3	60
4	50

The current spot exchange rate is Rs. 65/$ the risk free rate of interest in India is 11 % and in US it is 6 %. Zinc Pharma requires a rupee return of 15 % on the above project. Calculate the NPV under both home currency and foreign currency approach.