Birla Institute of Management LIBRARY M.P.

62243

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

IV Semester M.B.A (Day and Eve) Degree Examination, September/October - 2022

MANAGEMENT

International Financial Management

(CBCS Scheme 2019-20 Onwards)

Paper : 4.2.2

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

SECTION - A

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

1. Explain Phases of Evaluation of International Monetary System.
2. Discuss the provisions of International Taxation pertaining to Foreign Operations.
3. Briefly explain the structure of Forex Market.
4. P Company is a U.S. firm conducting a financial plan for the next year. It has no foreign subsidiaries, but more than half of its sales are from exports. Its foreign cash inflows to be received from exporting and cash outflows to be paid for imported supplies over the next year are disclosed below:

Currency	Total Inflow	Total Outflow
Canadian dollars (C$)	C$ 35,000,000	C$ 2,500,000
German mark (DM)	DM 5,500,000	DM 1,600,000
French franc (FF)	FF 15,000,000	FF 12,000,000
Swiss franc (SF)	SF 6,000,000	SF 8,000,000

The spot rates and one-year forward rates as of today are:

Currency	Spot Rate	One Year Forward Rate
C$	$0.90	$0.95
DM	$0.62	$0.59
FF	$0.16	$0.14
SF	$0.65	$0.69

Based on the information provided, determine the net exposure of each foreign currency in dollar.

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5. 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

$0.6870/80 5/6 8/7 13/10

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

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

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

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

6. Find the cross quote of £ in €, given that

€/$ 75.07/75.32

$/£ 0.7662/0.7703

7. Z Ltd is the Canadian affiliate of a US manufacturing company. Its balance sheet, in thousands of Canadian dollar, for January 1, 2021 is shown below. The January 1, 2021 exchange rate was C$ 1.8/$. Z Ltd Balance Sheet (Thousands of C$)

Assets	C$	Liabilities	C$
Cash	C$ 80,000	Current Liabilities	C$ 1,00,000
Accounts receivable	C$ 1,90,000	Long-term debt	C$ 1,90,000
Inventory	C$ 2,60,000	Capital Stock	C$ 5,80,000
Net plant and equipment	C$ 3,40,000		
Total	**C$ 8,70,000**		**C$ 8,70,000**

a) Determine Z Ltd accounting exposure on January 1, 2022, using Monetary/ Non- Monetary method.

b) Calculate Z Ltd contribution to its parent's accounting loss if the exchange rate on December 31, 2021 was C$ 1.95/per S. Assume all accounts remain as they were at the beginning of the year.

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SECTION - B

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

8. Explain the importance of Balance of Payment to Indian Economy and Identify the relationship of Balance of Payment with other Economic variables.

9. Companies XYZ and ABC has been offered the following rates p.a. on $10 million five-year loan:

	Fixed Rate	Floating Rate
Company XYZ	13.0%	LIBOR + 0.2%
Company ABC	14.4%	LIBOR + 0.7%

Company XYZ requires a floating rate loan; Company ABC requires a fixed rate loan. Design a swap that will net a bank, acting as intermediary, 0.1% p.a. and that will appear equally attractive to both companies.

10. Given the following data

Spot Rate: Rs 86.02 = $1

6 month Forward Rate: Rs 86.01 = $1

Annualized interest rate on 6 month rupee: 12 percent

Annualized interest rate on 6 month dollar: 8 percent

Calculate the Arbitrage possibilities.

11. An Exporter is exporting 100 articles at a cost of 80$ each and importing 100 units of materials at 20€/ unit, he incurs other variable expenses of Rs. 35,000 at the time of entering into contract, the exchange rate is Rs.71.5/$ at the time of export it is Rs 70/$ while Rs./€ at the time of order is Rs. 60/€, while at the time of export is Rs.63/€. If the price elasticity of goods is 1.5, what are the transactions and economic exposure?

SECTION - C

12. **Compulsory Case Study:** **(1×15=15)**

Walmart is a US based firm, required £1,00,000 in 180 day's and had four options before it:

a) A forward hedge

b) A money market hedge

c) An option hedge

d) No hedge

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Its analysts developed the following information which was used to asses the alternative solutions:

i) Current spot rate of $1.80/

ii) 180-days forward rate of $1 .76/£

Interest rates were as follows:

	UK	US
180-day deposit rate	5.2%	5.2%
180-day borrowingrate	6.1%	6.1%

The company also had the following information available to it:

A call option on Pound that expires in 180 days has an exercise price of $1.62 and a premium of $0.03

A put option on Pound that expires in 180 days has an exercise price of 1.68 and a premium of $0.02

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

Possible Outcome	Probability
$ 1.63	20%
$ 1.68	60%
$ 1.74	20%