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

IV Semester M.B.A. (Day and Evening) Degree Examination, December - 2024

MANAGEMENT

International Financial Management

(CBCS Scheme 2019)

Paper : 4.2.2

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

SECTION - A

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

1. Distinguish between Interest Rate Parity Vs Purchasing Power Parity Theory.

2. Explain the stages of Evolution of International Monetary System.

3. Discuss the importance of FOI in India with suitable examples.

4. The following quotes are available
Spot DM/$ 1.6702/1.6715.
Three months swap points 27/21
Six months swap points 34/28
Calculate the three-months and six months outright forward rates.

5. The following quotes are given for
Spot 1 month, 3 months and 6 months Indian Rupee and US $. Convert there into outright rates with corresponding spreads and also state whether rupee in quoted at premium or discount for each period.

Currency	Spot	1 month	3 months
RS/US $	81.2321/2340	25/45	145/112
6 months	-	-	-
8/9	-	-	-

6. If the present rate for 6 months borrowings in India is 9% p.a. and the corresponding rate in USA is 2% p.a. and the US $ in selling at Rs. 74.50/$. Then

a) Will US $ be as a premium or at a discount in the Indian Forward Market?

[P.T.O.

b) Find out the expected 6 months forward rate for US $ in India.

c) Find out the rate of forward Premium/Discount.

7. ABC Ltd. is an Indian affiliate of US company . It manufacture item which has sold primarily in US and UK. ABC B/S in 000's of Rs. as on 31st March 2023 follows.

Assets	Amount (000 Rs.)	Liabilities	Amount (000 Rs.)
Cash	15,30,000	Account payable	10,80,000
Accounts Receivables	18,00,000	Short term bank loan	17,10,000
Inventory	31,50,000	Long term loan	61,20,000
Net Plant and Equipment	74,70,000	Capital and Stock	45,00,000
		Retained earnings	5,40,000
	1,39,50,000		**1,39,50,000**

The exchange rate on 1st April, 2022 is Rs. 72/$ and 31st March 2023 is Rs. 79/$. Determine the accounting exposure and accounting gain or loss under monetary and non-monetary method.

SECTION - B

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

8. Explain the structure of Foreign Exchange Market and Mechanism of Currency Trading.

9. The one year interest rate in New Zealand is 8%. The one year US interest rate is 12%. The spot rate of the New Zealand $ is $ 0.87. The forward rate of the New Zealand $ is 0.89. Is covered interest arbitrage feasible for US investors? Is it feasible for New Zealand investors? in each case, explain why covered Interest Arbitrage is or is not feasible.

10. Company PQR and ABC have been offered the following rates p.a. on a $ 300 million five year loan.

Company	Fixed rate	Floating rate
PQR	11.0	LIBOR + 0.1%.
ABC	12.2	LIBOR + 0.8%

Company PQR requires a floating-rate loan: Company ABC requires a fixed rate loan. Design a swap that will net a bank acting as intermediary at 0.2% p.a. and be equally attractive to both the companies.

11. An UK importer imports goods worth of US $ 6,000 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 alternatives Spot rate Rs. 0.92/$, 90 days forward rate is Rs. 0.87/ $, interest rates on borrowings in UK and USA is 6% p.a. interest rate on deposits / investments is 5% p.a. in 90 days call option is having a strike price of Rs. 0.72 pounds at a premium of 0.06/$. In 90 days put option is having exercise price Rs. 0.76 and a premium Rs. 0.06/$. Spot rate on 90th day is Rs. 0.89/$. Determine the hedging strategies and best option to the importer.

SECTION - C

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

12. A U.K. Multinational wants to evaluate the persent value of a loan denominated in Australian dollars. It prefers to evaluate the Australian dollar debt using the typical decentralized technique, in which the Australian dollar cash flows are discounted and then converted to U.S. dollars at the prevailing spot rate. The spot exchange rate is currently 1 pound / 2 Australian dollar. The firm is considering four-year debt in the amount of Australian dollar 1,25,00,000, at an interest rate of 25%. The loan structure provides for payment of interest and repayment if all principal in one lump sum four years from now. The corporation's tax rate is 34% and the firm will be able to realize all benefits of the tax - related debt shield. The cost of borrowing for the firm in US $ to 12.5%.

The risk free interest rate in the U.K. is 10% and the rsik - free parity rate in Australia is 20.5%. If the firm decides to use uncovered interest parity to form expectations of future spot exchange rates, calculate the four year - ahead forcast.

Questions:

a) What is the present value of the Australian dollar financing, using the decentralized technique?

b) Instead of using the decentralized technique, the firm is considering a centralized technique, in which the Australian $ cashflow are converted to U.K pounds and subsequently discounted at the U.K. pounds cost of debt. If the firm uses uncovered interest parity in the risk-free deposit markets to forecast future exchange rates, what is the present value of the loan calculated to be? Explain your reason.