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Reg. No.

**IV Semester M.B.A. (Day and Evening) Degree Examination, December - 2023**

**MANAGEMENT**

**International Financial Management**

**(CBCS Scheme)**

**Paper : 4.2.2**

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

## SECTION - A

**Answer any Five questions, each question carries 5 marks.** **(5×5=25)**

1. Discuss the stages of evolution of international monetary system.
2. Illustrate the concept of surplus and deficit in BOP.
3. The US and Switzerland are running annual inflation rates of 5% and 3% respectively and the spot rate is CHF = $0.75 then calculate the PPP rate after 1,2 and 3 years.
4. Given the following data calculate any arbitrage possibility is available
   - Spot rate : €0.88=$1
   - 6 months forward rate : € 0.91 = $1
   - Annualized interest rate on 6 months USD = 5 %
   - Annualized interest rate on 6 months France = 8 %
5. If USD/INR is 83/83.50 and GBP/USD is 1.25/1.27 what is GBP/INR rate?
6. Discuss the methods for managing translation exposure.
7. Differentiate ADR and GDR.

## SECTION - B

**Answer any Three questions, each question carries 10 marks.** **(3×10=30)**

8. Farm products is Canadian affiliate of US manufacturing company, its balance sheet in thousands of Canadian dollars for 01-01-2022 is shown below:

| Liabilities | CAN$ | Assets | CAN$ |
|---|---|---|---|
| Current Liabilities | 60000 | Cash | 100000 |
| Long term Debt | 160000 | Account Receivables | 220000 |
| Capital Stock (Net worth) | 620000 | Inventory | 320000 |
| | | Net Plant and Machinery | 200000 |
| **Total** | **840000** | **Total** | **840000** |

The Expected return as on 01/01/2022 was CAN$ 1.6 per USD and 1.7 per USD determine Farm product accounting exposure on 01-01-2023 using current rate method and monetary and non- monetary method.

**[P.T.O.**

9. Explain the following concepts in detail:
   a) Purchasing Power Parity (PPP)
   b) Interest Rate Parity Theory (IRP)

10. Pepsi Company would like to hedge its CAN $ 40 million payable to 'A' limited, a Canadian aluminum producer which is due in 90 days suppose it faces the following exchange and interest rates.

| | |
|---|---|
| Spot rate | $ 0.7307/12 per CAN $ |
| Forward rate (90 days) | $ 0.7320/41 per CAN $ |
| CAN $ 90 day interest rate (annualized) | 4.71 % - 4.64 % |
| US $ 90 day interest rate (annualized) | 5.50 % - 5.35 % |

Which hedging alternative would you recommend? The first rate is the borrowing rate and second rate is the lending rate.

11. Company A and company B have been offered the following rates pa on a $ 20 million 5 year loan

| Company | Fixed rate | Floating rate |
|---|---|---|
| A | 12% | LIBOR+0.1% |
| B | 13.4% | LIBOR+0.6% |

Company A requires floating rate loan and company B requires a fixed rate loan. Design a swap agreement that will net a bank acting as intermediary 0.1% pa and that will appear equally attractive to both the companies.

## SECTION - C

**Compulsory question.** **(1×15=15)**

12. HUL Uniliver's Subsidiary in India, procures much of its toiletries product line from Japanese Company. Due to shortage of working capital in India payment terms by Indian importers are typically 180 days or longer. HUL wishes to hedge 8.5 million Japanese Yen payable.

Although options are not available on the Indian Rupee, forward rates are available against Yen. Additionally a common practice in India is for companies like HUL to work with a currency agent who will in this case lock in current spot exchange rate in exchange for 4.85% fee.

Using the following exchange rate and interest rate data, recommend a hedging strategy

a) Spot rate ¥/$ =¥120.60/$
b) Spot rate Rs/$ Rs 82.75/$

i. 180-day forward rate ¥/Rs = ¥1.7657/Rs
ii. Expected spot rate in 180 days = ¥1.7860/Rs
iii. 180-day Yen investment rate = 1.5 %
iv. 180-day Rupee investment rate = 8.0 %
v. HUL's cost of capital =12 %