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IV Semester M.B.A. (Day) Degree Examination, October - 2021

MANAGEMENT

International Financial Management

(CBCS 2014-15 Scheme)

Paper - 4.2.2/4.6.2

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

SECTION - A

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

1. Write a short note on the various exchange rate regimes.
2. What is Balance of payments? Explain its relationship with the different economic variables.
3. Explain Interest Rate Parity Theory and International Fisher Effect.
4. The following quotes are available:

DM/$	1.5105/1.5120
Three-month swap points	25/20
Six-month swap points	30/25

Calculate the three-month and six-month outright forward rates.

5. The spot rate of $ is ¥ 150. The inflation rate in Japan is 5%, while it is 10% in US. What would be the $ rate in terms of ¥ one year hence, also calculate 180-day forward rate.
6. An importer has purchased from Germany goods worth € 50,000. There is no quote available for Rs. versus €. The quotes available are:
   i) US $ = Rs. 74.50/60 and
   ii) US$ = € 15.2025/50

   What is the value of this transaction in Rupee terms?
7. Following information is available in respect of a put option on £:

   Strike price $ 1.50/£

   Option premium $ 0.04/ £

   Spot rate on strike date $ 1.40/ £

   Find the payoff of the buyer and seller on the put option given that one option contract cover 10,000 units of £.

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SECTION -B

Answer any **THREE** questions. Each question carries **Ten** marks. **(3×10=30)**

8. Describe the importance of International Monetary System and stages of evolution.

9. An Anrican firm purchases $ 4000 worth of Perfume (₣ 20000) from a French firm, the American distributor must make the payment in 90 days in Frenche Franc the following quotations and expectations exists for the French Franc.

   Spot rate = $ 0.200, 90-day forward rate = $ 0.220, interest rate in US =15 %, interest rate in France = 10 %.

   Your expectation of spot rate 90 days hence is $ 0.240

   a) What is the premium on the forward French France? What is the interest rate differential between France and US? Is there an incentive for covered interest arbitrage?

   b) If there is a covered interest arbitrage how can an arbitrager take advantage of given situation assume the arbitrager is willing to borrow $ 4000 or French Franc (₣) 20000 and there are no transaction costs.

10. ABC Ltd is a manufacturing company in England, it is the wholly owned subsidiary of XYZ Ltd of US. The functional currency for ABC Ltd is £ which currently sells at $1 .5/£. The reporting currency for XYZ Ltd is US$. Non-consolidated financial statement for ABC and XYZ are fornished below-

Assets	XYZ (Amt.in $)	ABC (Amt. in £)	Liabilities	XYZ (Amt. in $)	ABC (Amt. in £)
Cash	8,000	2,000	A/c payable	22,000	4,000
A/c Receivables	10,000	4,000	Long term loan		4,000
Inventory	8,000	2,000	Capital Stock	9,000	2,000
Plant and Equipment	10,000	6,000	Retained earnings	9,500	4,000
Investment	4,500				
Total	**40,500**	**14,000**		**40,500**	**14,000**

   a. Prepare a consolidated Balance Sheet for XYZ ltd.

   b. What is ABC ltd accounting exposure in US$. Use current rate method for the calculation.

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c. Before any business activities take place, the £ depreciates by 9% in value relative to the $. What is the new spot rate?

d. What is the XYZ loss/gain if any, by the current rate method, monetary and non monetary method after new position?

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

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

ABC Ltd., a US firm, will need £ 5,00,000 in 180 days. In this connection, the following information is available:

Spot Rate £ 1 = $ 2.00.

180 days forward rate of £ as of today is $ 1.96.

Interest rates are as follows:

	U.S.	U.K.
180 days deposit rate	5.0%	4.5%
180 days borrowing rate	5.5%	5.0%

A call option on £ expires in 180 days has an exercise price of $ 1.97 and a premium of $ 0.04.

ABC Ltd. has forecasted the spot rates for 180 days as below.

Future Rate ($)	1.91	1.95	2.05
Probability	30%	50%	20%

Which of the following strategies would be most preferable to ABC Ltd?

a) A forward Contract.

b) A money market hedge.

c) An option contract.

d) No hedging option.