OP – 260

2.

IV Semester M.B.A. Degree Examination, November 2022
(CBCS) (2014-15 and Onwards)
MANAGEMENT
Paper – 4.2.2 /4.6.2 : International Financial Management

Time : 3 Hours   Max. Marks : 70

SECTION – A

Answer **any five** of the following questions. **(5×5=25)**

1. Identify the factors which are to be taken into consideration by the countries, which seek to make use of foreign capital on their terms.

2. What techniques may be adapted to forecast exchange rates ? What are their limitations ?

3. What advantage do currency options offer that are not available with futures or forward contracts ?

4. A Bank sold Hong Kong Dollars 1,00,000 spot to its customer at Rs. 7.5681 and covered itself in London Market on the same day, when exchange rates were : US$ 1 = HK$ 8.4409 – 8.4500.

   Local interbank market rates for US$ were

   Spot US$ 1 = Rs. 72.7128 – Rs. 72.9624.

   Calculate the cover rate and ascertain the profit or loss in the transaction. Ignore brokerage.

5. Company 'A' wishes to borrow 10 million at a fixed rate for 5 years and has been offered 11% fixed or 6-month LIBOR + 1%. Company B wishes to borrow 10 million at a floating rate for 5 years and has been offered 10% fixed or 6-month LIBOR + 0.5 %. How do they enter into a Swap agreement in which each benefit equally ? What risk did this arrangement generate ?

6. On April 2022, a Bank quotes the following :

   Spot Exchange Rate (US$ 1) INR 66.5525 / INR 67.5945

   2 months swap points 70/90

   3 months swap points 160/186

   In a spot transaction, delivery is made after two days.

   Assume spot date as April 5, 2022. Assume 1 swap point = 0.0001

   You are required to :

   i) Ascertain swap points for 2 months and 15 days (for June 20, 2022).

   ii) Determine foreign exchange rate for June 20, 2022 and

   iii) Compute the annual rate of premium/discount of US$ on INR, on an average.

P.T.O.

7. D company is Canadian affiliate of US manufacturing company, its balance sheet in thousands of Canadian dollars for 01/01/2019 is shown below :

Liabilities	CAN$	Assets	CAN$
Current Liabilities	60,000	Cash	1,00,000
Long term Debt	1,60,000	Account Receivables	2,20,000
Capital Stock (Net Worth)	6,20,000	Inventory	3,20,000
		Net Plant and Machinery	2,00,000
Total	**8,40,000**	**Total**	**8,40,000**

The Expected rate as on 01/01/2019 was CAN$ 1.6/$.

a) Determine D's accounting exposure on 01/01/2020 using current rate method.

b) Calculate D's contribution to its parents accounting loss if the expected rate on 31/12/2019 was CAN$ 1.8/$. Assume all account to remain as they were in beginning of the year.

SECTION – B

Answer **any three** of the following questions. **(3×10=30)**

8. Explain Transaction Exposure ? Discuss the major internal techniques used for management of transaction exposure.

9. Explain the importance of and motives for using International Credit and Financial Markets.

10. Currency exchange rates and Interest rates are as follows :

Current Singapore dollar spot rate US$ 0.55 / S$

1-year Singapore dollar forward rate US$ 0.56 / S$

1-year Singapore dollar interest rate 4.5%

1-year US interest rate 6.5%.

In what direction will Covered Interest Arbitrage (CIA) force the quoted rates to change ? Compute the profit based on $ 1 million initial position.

11. Suppose Company A wants 5-year fixed rate dollar funding while Company B wants 5-year fixed rate Japanese yen funding. Company A's direct borrowing all-in-cost is 9.50% in dollars and 7% in Japanese yen. Company B's direct borrowing all-in-cost is 8.25% in dollars and 8% in Japanese yen.
Refer to the quotes by a bank given below and design a swap between the two companies involving the bank.
What is the maximum gain for all parties involved through this swap ? What is the effective borrowing cost for each company ? How much does each company save through the swap ? How and explain.

Currency swaps

Yen			U.S. dollar		
Term	**Bid**	**Offer**	**Term**	**Bid**	**Offer**
2	7.18	7.22	2	7.53	7.58
3	7.17	7.23	3	7.89	7.94
4	7.15	7.20	4	8.16	8.21
5	7.12	7.17	5	8.35	8.39
7	6.89	6.94	7	8.55	8.59
10	6.81	6.86	10	8.68	8.72

All of the above interest rate swap quotes are fixed rates against the six-month LIBOR rate in the same currency. The currency swap quotes are fixed rates in the currency concerned against six-month U.S. dollar LIBOR.

SECTION – C

Compulsory question. **(1×15=15)**

12. India International needs to order supplies 2 months ahead of delivery date. It is considering an order from Japanese that requires a payment of ¥ 12.5 million payable as of the delivery date.
India International has two option or choice
 a) Purchase 2 call option contracts each option contract size is ¥ 6250000.
 b) Purchase one future contract representing ¥ 12.5 million.

The future price of yen has historically exhibited a slight discount from the existing spot rate however the firm likes to use currency option to hedge in Japanese Yen for transaction 2 months in advance. India International would prefer hedging since it is uncomfortable to leave position open giving historical volatility of Yen. The current Yen spot rate is $ 0.0072. There are 2 call options available, call A with an excise price of 5% above spot price with premium of 2% the price to be paid per Yen if the option is exercised. Call B with an excise price of 10% above spot price with premium of 1.5% the price to be paid per Yen if the option is exercised. The 2-month future price of Yen is $ 0.006912. As an analyst you have been asked to answer insight of how to hedge assume the spot rate remain unchanged after 2 months.

a) Calculate option exercise price and premium for both the call options.

b) If India International decides to use call option to hedge Yen which call option, should it use ?

c) If India International decides to allow Yen to be un-hedged, will it benefit ? If so, calculate trade-off.

d) Which is the optimal choice for the company, call A or call B or future contract if the spot price on expiry becomes $ 0.00781 ?
