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PG – 542

IV Semester M.B.A. (Day and Eve.) Examination, November/December 2023
(CBCS) (2022 – 23 and Onwards)
MANAGEMENT
Paper – 4.2.2 and 4.6.2 : International Financial Management (Finance)

Time : 3 Hours　　　　　　　　　　　　　　　　Max. Marks : 70

SECTION – A

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

1. What is the Balance of Payments (BOP) ? Explain the three main components of the BOP and discuss their importance.

2. Suppose that one-year interest rates are 6% in the US and 8% in UK. The current spot rate b/n the British pound and US$ is $1.48/pound. What would you expect the spot rate for the pound to be one year hence if you believe that the international Fisher effect holds ?

3. What is the difference between a direct and indirect currency quotation ? Provide an example of each.

4. Explain how currency swaps can be used to reduce foreign exchange risk. Provide two examples of how currency swaps can be used to reduce foreign exchange risk.

5. Critically evaluate the European Monetary System (EMS) in terms of its successes and failures.

6. Assume that Bentley consultants have successfully negotiated a contract and expect to receive a Mex $25 million consultancy fee from Mexico in 90 days. The current spot rate is $0.122/Mex$ and the 90-day forward rate is $0.094/Mex$.

   a) What is Bentley consultant's peso transaction exposure associated with this fee ?

   b) Calculate the U.S. dollar value of the fee if the spot rate expected in 90 days in $0.120.

P.T.O.

7. A US importer has a payable of €100,000. The seller has given the US importer the following two options :

   Pay immediately with a cash discount of 2% on the payable.

   Pay after 3 months with interest at 3% p.a.

   The borrowing rate for the importer in US dollars is 10% p.a. The following are the exchange rates as on September 20, 2023 :

USD/€	Spot Rate : 1.01/1.03	3-month Forward Rate : 1.02/1.04

   Which of the above two options is advisable for the importer ?

SECTION – B

Answer **any three** questions from the following. **Each** question carries **10** marks.

(3×10=30)

8. a) What are the factors that can cause a currency to appreciate or depreciate ?

   b) What is the difference between spot and future exchange ?

9. Stoner U.K., the British subsidiary of Stoner U.S. has current assets of £2 million, fixed assets of £3 million, and current liabilities of £2 million. Stoner has no longer term liabilities.

   a) Calculate Stoner U.K.'s translation risk under all the four translation methods.

   b) If the pound is assumed to be functional currency, and it changes value from \$1.60 to \$1.50. Calculate the translation gain (loss) that will be reflected in the CTA account.

10. Evaluate the role of international capital budgeting.

11. Record the following transactions and prepare the balance of payments statement.

    a) A US firm exports \$1,000 worth of goods to be paid in six months.

    b) A US resident visits London and spends \$400 on hotel, meals and so on.

    c) US government gives a US bank balance of \$200 to the government of a developing nation as part of the US aid program.

    d) A US resident purchase foreign stock for \$800 and pays for it by increasing the foreign bank balance in the US.

    e) A foreign investor purchase \$600 of US treasury bills and pays by drawing down his bank balances in the US by an equal amount.

SECTION – C

Compulsory Case Study. **(1×15=15)**

12. Apex corp. is a US based MNC that has been in international business for the last several years. It has been conducting business with all the major countries of the world. One of the countries has allowed for its currency value to be market determined. The spot rate of currency is \$85. In additional the one year forward rate being quoted in the market is \$82. As a set up to build the economy, the country is also allowing foreign investors to make investments. Various incentives are being offered by country to attract foreign funds. The rate of interest on one-year govt. securities is presently 16%. This is substantially higher than the 10% rate which is presently offered on 1 year US govt. securities.

    Apex Corp. has asked you, as an employee in their international money market division, to assess the feasibility of making a short-term investment in this country. The amount available for making the investment for the next year is \$12 million.

    The apex Corp. has also come to know that the exchange rate in this country will be market determined for the next few years. Financial managers in Apex Corp. are hence apprehensive about high volatility of the currency till an equilibrium is reached. It is exposed that the value of currency in 1 year will be approx. \$85. However, there is a high degree of uncertainty attached with this value and predictions are being made that the actual value may be 30% above or below this expected value.

    Question :

    a) Would you be willing to invest funds in this country without covering your position ? If yes, then answer why ?

    b) Would covered interest arbitrage be worth considering ? Show your calculations.

    c) Are there any risks involved in using covered interest arbitrage ? Elucidate.