PG – 1421

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IV Semester M.B.A. (Day and Eve.) Examination, December 2024/January 2025
(CBCS) (2022-23 and Onwards)
MANAGEMENT
Paper – 4.2.2/4.6.2 : International Financial Management (Finance)

Time : 3 Hours   Max. Marks : 70

SECTION – A

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

1. Explain evolution stages of International Monetary System.

2. Explain Purchasing Power Parity Theory of exchange rate determination.

3. What is Forex Exposure ? Briefly explain different types of Exposures.

4. Explain the different types of accounts maintained under Balance of Payments with its components.

5. The following two-way quotes appear in the foreign exchange market.

Rs./$	Spot	Rs. 46.00/46.25
	Forward	Rs. 47.00/47.50

Required :

i) How many US$ should a firm sell to get Rs. 25 lakhs after 2 months ?

ii) How many Rupees is the firm required to pay to obtain US$ 2,00,000 in this spot market ?

iii) Assume the firm has US$ 69,000 in current account earning no interest. ROI on Rupee Investment is 10% p.a. should the firm encash the US$ now or 2 months later ?

6. a) Spot quotation of Singapore $ is Rs. 45. Interest rate in Singapore is 6% and interest rate in India is 10%. What shall be the forward rate a year later, also calculate 270-day forward rate.

b) Find cross rate from the following information.

$/£ = 2.0015/30, $/SFR = 0.6965/70, £/SFR = ?

P.T.O.

7. Central Industries is the French manufacturing subsidiary of US corporation. Central's Balance Sheet in thousands of French Francs is as follows :

Liabilities	**FFr**	**Assets**	**FFr**
Accounts Payable	10,000	Cash	14,400
Notes Payable	10,000	Account Receivables	10,600
Long term Debt	12,800	Inventory	12,000
Shareholders' Equity	20,200	Net Plant and Equipment	16,000
Total	**53,000**	**Total**	**53,000**

Spot Exchange Rate : FFr 6.00/$

One year forward exchange rate : FFr 6.60/$

Calculate accounting gain/loss that will be reflected in the CTA account ? And also calculate translation exposure by the Current Rate Method and Monetary/ Non-monetary Method.

SECTION – B

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

8. Why did the International Monetary System move from a Fixed Exchange Rate System to a Floating Exchange Rate System? What has been its impact ?

9. Explain Internal and External Foreign Currency Hedging Strategies.

10. Bio Pharmaceuticals Ltd. an Indian based foreign MNC is evaluating an overseas investment proposal, Bio Pharmaceuticals Ltd. exporter of pharmaceutical products is considering to build a plant in US. The project will entail an initial out lay of $ 100 million and it is expected to give the following cash flow over its life of 4 years.

Years	**Cash Flow (in million $)**
1	30
2	40
3	50
4	60

The current spot exchange rate is Rs. 75/$ the risk-free rate of interest in India is 8% and in US it is 4%. Bio Pharmaceuticals requires a rupee return of 15% on the above project. Calculate the NPV under both home currency and foreign currency approach.

11. 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 arbitrage profit.

SECTION – C

Compulsory question. **(1×15=15)**

12. ABC Corporation is a US based software consultant specialized in financial software for several fortune 500. It has an office in India, UK, Europe and Australia. ABC Corporation required £ 100000 in 180 days and had 4 options before it.

a) Forward Market Hedge
b) Money Market Hedge
c) Option Hedge
d) No Hedge

Its analyst developed the following information which was used to assess the alternative.

- Current spot rate of £ is $ 1.50 and 180-day forward rate of £ is $ 1.48
- Interest rates were as follows :

Particulars	**UK**	**US**
180 day deposit rate	4.5%	4.5%
180 day borrowing rate	5.1%	5.1%

The company also had the following information available to it.

- A call option on £ that expires in 180 days has an exercise price of 1.5 and a premium of $ 0.02.
- The future spot rate in 180 days are forecasted as follows.

Possible outcome	**Probability**
$ 1.44	20%
$ 1.46	60%
$ 1.53	20%

An analysis of hedging technique should be made and advice ABC Corporation on the best alternative for hedging.