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IV Semester M.B.A. (Day and Eve.) Examination, November/December 2025
(CBCS – 2022 – 23 & 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. Explain leading and lagging as a strategy for internal hedging.

2. What are Currency Forwards and Futures ? How are they used by importers and exporters to hedge their outstanding positions ?

3. Distinguish between Currency Devaluation and Currency Depreciation with example.

4. a) Spot quotation of Singapore $ is Rs. 68. Interest rate in Singapore is 7% and interest rate in India is 9%. What shall be the forward rate a year later, also calculate 270-day forward rate ?

   b) Find cross rate from the following information :

   £/INR = 0.0084/90, £/SGD $ = 0.5800/40, INR/SGD $ = ?

5. a) An importer has purchased from Brazil goods worth Brazilian Real 20,000. There is no quote available for INR vs BRL. The quote available are :

   USD = Rs. 72.78/98

   USD = BRL 5.05/30

   What is the value of this transaction in Rupee terms ?

   b) Distinguish between American and European quotation.

6. The spot rate of the Singapore dollar in the United States is USD 0.64 and that of the INR is USD 0.0224. What is the exchange rate of the Singapore dollar in India ? If the Singapore dollar is quoted in India at SGD/INR : 29, how can an arbitrageur make a profit in this situation ?

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7. You have called your foreign exchange trader and asked for quotation on the spot, 1-month, 3-months and 6-months forward rate. The trader has responded with the following \$ 0.2479/81, 3/5, 8/7, 13/10.

   a) What does this mean in terms of dollars per Euros ?

   b) If you wished to buy spot Euros, how much would you pay in Dollars ?

   c) If you wanted to purchase spot USD, how much would you have to pay in Euro ?

   d) What is the premium or discount in the 1, 3, 6 month forward rate in annual percentage ?

SECTION – B

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

8. What is Foreign Exchange Risk ? Explain the internal techniques for mitigating Transaction Risk.

9. Differentiate between accounting exposure and economic exposure. Discuss the principal translation methods of 'Foreign Subsidiaries Accounts'.

10. Barret Corporation presently has no existing business in France but is considering the establishment of a subsidiary there. The following information is given to assess this project :

    - The initial investment required is FF 60 million. The existing spot rate is \$ 0.20; the initial investment in dollars is \$ 12 million. In addition to FF 60 million initial investments on plant and equipment, FF 10 million is needed for working capital and will be borrowed by the subsidiary from French bank. The French subsidiary of Barret will pay interest only on the loan each year at an interest of 10%.
    - The loan principal is to be paid in 10 years.
    - The project will be terminated at the end of year 3, when subsidiary will be sold.
    - The price, demand and variable cost of the product in France are as follows :

Year	Price (FF)	Demand	Variable Cost (FF)
1	600	40000	25
2	650	50000	30
3	700	60000	40

- The fixed costs are estimated to be FF 5 million per year.
- The exchange rate of the French Franc is expected to be \$ 0.22 at the end of year 1, \$ 0.25 at the end of year 2 and \$ 0.28 at the end of year 3.
- The French Government will impose a withholding tax of 10% on earnings remitted by the subsidiary. The U.S. Government will allow a tax credit on remitted earnings and will not impose any additional taxes.
- All cash flows received by the subsidiary are to be sent to the parent at the end of each year. The subsidiary will use its working capital to support ongoing operations.
- The plant and equipment are depreciated over 10 years, using straight-line depreciation method. Since the plant and equipment are initially valued at FF 60 million, the annual depreciation expense is FF 6 million.
- In three years, the subsidiary is to be sold. Barret plans to let the acquiring firm assume the existing French loan. The working capital will not be liquidated, but will be used by the acquiring firm.
- The required rate of return on this project is 15%.

a) Determine the net present value of this project. Should Barret accept this project ?

b) Assume that Barret Co. provides the additional funds for working capital so that the loan from the French Government is not necessary.

c) Would the NPV of this project from the parent's perspective be more sensitive to exchange rate movements if the subsidiary used French financing to cover the working capital ? Explain.

11. Companies A and B face the following interest rates (adjusted for the differential impact of taxes) :

	A	B
US Dollars (floating rate)	LIBOR + 0.5%	LIBOR + 1.0%
Canadian Dollars (fixed rate)	5.0%	6.5%

Assume that A wants to borrow U.S. dollars at a floating rate of interest and B wants to borrow Canadian dollars at a fixed rate of interest. A financial institution is planning to arrange a swap and requires a 50-basis-point spread. If the swap is equally attractive to A and B, what rates of interest will A and B end up paying ?