PG – 522

IV Semester M.Com. (FA) Examination, June/July 2018
(CBCS)
Paper – 4.3 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours   Max. Marks : 70

SECTION – A

Answer **any seven** of the following sub-questions in about **3-4** lines. **Each** question carries **two** marks. **(7×2=14)**

1. a) What is cross currency quote ?
   b) What is 'arm-length' price ?
   c) Explain the components of BOP.
   d) Define international leasing.
   e) Explain leading and lagging techniques.
   f) What is meant by covered interest arbitrage ?
   g) What is expropriation ?
   h) What is pegging of currencies ?
   i) Distinguish T.T. buying and T.T. selling rates.
   j) Define currency swap.

SECTION – B

Answer **any four** questions in about **one** page **each**. **Each** question carries **five** marks. **(4×5=20)**

2. Write a note on foreign currency bonds.

3. What is political risk ? Explain any one method to measure political risk.

4. Differentiate between economic and translation exposures.

5. ABC Ltd. has a debt equity ratio of 1 : 2 and after tax debt is 8%. Suppose that a foreign project has a Beta of 0.95, the risk free rate of interest is 10% and the required rate of return on market is estimated at 18%, what is the cost of equity and weighted average cost of capital ?

P.T.O.

6. From the following particulars, calculate the possibilities of arbitrage.
   Spor rate – Rs. 66.46/USD
   6 months forward rate – Rs. 66.78/USD
   Annualised interest rate on 6 months rupee – 12%
   Annualised interest rate on 6 months dollar – 8%
   Assume an investment of USD 10,000 and determine the profit.

7. Following are the details of cash inflows and outflows in foreign currency denominating of ABC Ltd., an Indian export firm which does not have foreign subsidiaries. (value in lakh)

Currency	**Inflow**	**Outflow**	**Spor rate Rs.**	**Forward rate Rs.**
USD	400	200	66.78/USD	67.10/USD
F/Fr	200	80	12.31/F.Fr	12.45/F.Fr
UK pound	300	200	91.74/ £	91.94/ £
Japanese Yen (for 100 Yen)	150	250	61.00	61.35

   Determine the net exposure of each foreign currency in terms of Rupees.

SECTION – C

Answer **any three** questions. **Each** question carries **12** marks. **(3×12=36)**

8. Explain the theory of interest rate parity and enumerate the factors that limits its applicability.

9. Describe the various methods of capital budgeting that are normally adopted by MNCs.

10. XYZ Ltd., a US firm will need £ 3,00,000 in 180 days. In this connection, the following information is available.

Spor rate	1 £ = 2 USD
180 days forward rate of £ as of today	1 £ = 1.96 USD

Interest rates are as under :

	U.K.	**U.S.A.**
180 days deposit rate	4.50%	5.00%
180 days borrowing rate	5.00%	5.50%

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

The company has forecasted the spor rates 180 days hence as under :

Future rate	Probability
USD 1.91	0.25
USD 1.95	0.60
& USD 2.05	0.15

Which of the following strategies would be most preferable ?

a) Forward contract

b) Money market hedge

c) Option contract

d) No hedge.

11. IRP Ltd. is the U.K. subsidiary of an Indian IT company. The company's Balance Sheet is thousands of pound sterlings (£) for 1-1-2016 is given below :

Balance Sheet (000 £)

Assets		Liabilities	
Cash	1,50,000	Current liability	90,000
Account receivables	3,30,000	Long term debt	2,40,000
Inventory	4,80,000	Capital stock	9,30,000
Net plant and machinery	3,00,000		
	12,60,000		**12,60,000**

a) Determine IRP's accounting exposure on 1-1-2017 using

a) Current rate method

b) Monetary and non-monetary method.

b) Calculate the company's contribution to its parent accounting profit/loss if the exchange rate on 31-12-2016 was 1 £ = Rs. 82.1545.

12. Discuss the features of various international financial instruments.

PG – 552

IV Semester M.Com. (FA) / M.F.A. Examination, June 2017
(Semester Scheme) (CBCS)
Paper – 4.3 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 70

SECTION – A

Note : Answer **any seven** of the following sub-question in about **3-4** lines. **(7×2=14)**
Each question carries **two** marks.

1. a) What are the different components of BOP ?
   b) What is foreign exchange exposure ?
   c) What is Bid offer spread ?
   d) Write a note on operating exposure.
   e) Define arbitrage.
   f) What is FCCB's ?
   g) Write a short note on multilateral netting.
   h) What is double taxation relief ?
   i) Write a note on forfeiting.
   j) List the main methods to manage foreign exchange risk.

SECTION – B

Answer **any four** questions in about **one** page **each**. **Each** question carries **five** marks. **(5×4=20)**

2. Describe different types of foreign exchange exposures and explain the techniques used for translation exposure.

3. Why is cost of capital for MNCs different from that of domestic firms ? How is the cut off rate for a foreign project determined ?

P.T.O.

4. Explain the various factors to be considered while deciding the currency, market and vehicle for long term borrowing.

5. Briefly explain the management of receivables in multinationals.

6. On a particular day at 11.00 a.m., the following USD/CHF spot quote is obtained from a bank 1.6225/35.

   a) Explain this quotation

   b) Compute the implied inverse quote

   c) If another bank quoted CHF/$ 0.6154/59. Is there are arbitrage opportunity.

7. Explain the factors that have to be considered for investing in International Markets.

SECTION – C

Note : Answer **any three** questions. **Each** question carries **12** marks. **(3×12=36)**

8. What are the major problems faced by MNCs in managing cash ? Describe the techniques through which cash flows can be optimized. What complications arise during optimization of cash flows ?

9. Discuss the basic steps involved in evaluating foreign projects. Why should a foreign project be evaluated individually as well as from its parent company's view point ?

10. Explain the Interest rate parity relationship and its applications. What are the deviation from such relationship ?

11. Find the balance of trade, balance of Current Account and the overall balance of payments with the help of the following figures :

	Item	Debit (₹, million)	Credit (₹, million)
1)	Trade in goods	55,383	38,285
2)	Services such as travel, transport and others	11,865	15,721
3)	Statistical discrepancy	–	323
4)	Unilateral transfer	34	12,672

5)	Foreign investment	7,123	12,240
6)	External assistance	2,183	3,074
7)	External commercial borrowings	2,874	3,207
8)	Investment income	5,490	1,931
9)	Banking Capital	8,532	11,259
10)	Rupee debt service	711	–
11)	Other capital transactions	2,510	4,018

12. An Indian importer imports goods worth $ 62,500. He expects an appreciation of pound. So he goes for hedging the risk. The currency market has the following data :

a) Spot rate on the date of the contract ₹ 68.00/£

b) Three-month forward rate ₹ 68.50/£

c) Strike rate in a three-month call option ₹ 68.60/£ with 5% premium

d) Strike rate in a three-month put option ₹ 68.80/£ with 5% premium

e) Spot rate on the date of payment/maturity ₹ 68.90/£.

Will he go for a hedge ? If so, which of the options he will select ?

IV Semester M.Com. (Financial Accounting)/M.F.A.
Examination, June 2016
(CBCS Scheme)
Paper – 4.3 : INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 70

Instruction : *Answer* ***all*** *Sections.*

SECTION – A

Answer **any seven** sub-questions out of ten. **Each** sub-question carries **two** marks. **(7×2=14)**

1. a) What do you mean by Euro equity ?
   b) Explain country risk analysis.
   c) What is meant by leading and lagging strategy ?
   d) What is meant by transfer price ?
   e) Explain economic exposure.
   f) What is meant by netting ?
   g) Define Associated Enterprise.
   h) Define pecking order of financing.
   i) What is meant by money market hedge ?
   j) What are blocked funds ?

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks. **(4×5=20)**

2. You are given that the risk-free rate of return in India is 10%. An American investor decides to buy Indian securities with beta = 1.50 and variance of return = 20%. The Indian rupee has been depreciating at 5% against the dollar with variance of 15%. If the market portfolio fetches a return of 20% in India and correlation between the return on security and exchange rate is 0.20, estimate the expected return and risk for US investor.

3. Elucidate the various techniques to optimise cash inflows.

4. Discuss the economic factors that should be considered when assessing country risk.

5. Explain in brief the methods of computation of Arm's length price.

6. A German subsidiary of an US based MNC has to mobilise working capital for the next 12 months. It has the following options :

   Loan from German bank : 6%

   Loan from US parent : 5%

   Loan from Swiss bank : 2%

   Banks in Germany charge an additional 0.5% towards loan servicing. Loan from outside Germany attract withholding tax at 10% on interest paid. If the interest rates given above are market determined, examine which loan is most attractive.

7. A foreign project requires $ 40,000, which is raised from equity and debt. $ 10,000 is raised by equity and remaining by loan at an interest rate of 12%. Project has beta of 0.80, the risk free return is 10% and the required return on the market is estimated at 15%. Calculate overall cost for the project.

SECTION – C

Answer **any three** questions out of five. **Each** question carries **twelve** marks. **(3×12=36)**

8. Discuss transaction exposure and enumerate techniques to hedge transaction exposure.

9. A Swiss multinational has subsidies in Switzerland, UK and Singapore. The following cash flows are involved among the subsidiaries and Headquarters.

From	To	Amount
Swiss subsidiary	US parent	SFr 320,000
Swiss subsidiary	UK subsidiary	SFr 32,000
UK subisidiary	Swiss subsidiary	£ 27,390
UK subsidiary	US parent	£ 57,878
Singapore subsidiary	Swiss subsidiary	S$ 534,000
Singapore subsidiary	UK subsidiary	S$ 164,400
US parent	Singapore subsidiary	$ 150,000

The exchange rates are currently :

£ 1 = $ 1.64

$ 1 = S$ 1.68

$ 1 = SFr 1.45

Explain how the company can use centralised cash management.

10. Explain important factors that need to be assessed from income tax point of view while entering into foreign collaboration agreement .

11. After tax lending and borrowing rates for three units of ABC Ltd. located in US, France, and Germany are :

	Lending (%)	Borrowing (%)
United States	3.4	4.2
France	3.2	4.5
Germany	3.6	4.7

Currently, the French and German units owe $ 2 million and $ 3 million, respectively to their US parent. The German unit also has $ 1 million in payable outstanding to its French affiliate. The timing of these payments can be changed by up to 90 days in either direction. Assume that ABC Ltd. is borrowing funds while both the French and German Subsidiaries have excess cash available.

a) What should be ABC Ltd.'s optimal leading and lagging strategy ?

b) What is the net profit impact of these adjustments ?

12. Write a short note on the following :

a) International project finance

b) Multinational Capital Budgeting

c) International financial market and instruments.