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SI.No.

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IV Semester M.B.A. Examination, May - 2019
(Scheme : 2011)
BUSINESS ADMINISTRATION
International Financial Management (Elective - FM6)

Time : 3 Hours

Max. Marks : 75

SECTION - A

Answer all questions. Each question carries 6 marks.   [5 × 6 = 30]

1. Explain the role of IMF in international monetary system.

2. In India the interest rate on a 1 year loan is 14.5 per cent and inflation is expected to be 6.5 per cent. The expected inflation rate in X country is 8.5 per cent. What should be the interest rate of a one year loan in X country?

3. What are the basic differences between forward and future contracts?

4. What are the components of Balance of Payments?

5. The current spot rate for US dollar is Rs.45. The expected inflation rate if 6 percent in India and 2 percent in the US. What is the expected spot rate of dollar a year hence?

SECTION - B

Answer any three. Each carries 10 marks.   [3 × 10 = 30]

6. What are the salient features of foreign exchange market in India?

7. Describe the three types of foreign exchange exposure.

8. Zenith company has purchased equipment from an American firm for $60,00,000, payable in 4 annual installments. The first installment is payable immediately. The US Company allows credit at 6% p.a. The purchaser, whose revenues are in sterling, is at risk from an appreciation of the US dollar against sterling. The purchaser shops around for forward contracts and finds that the U.K subsidiary of a US bank is prepared to offer one, two and three year forward contract at £1=$1.47, £1=$1.44and £1=$1.41 respectively. The spot rate is £1=$1.50. Should the forwards be used to restructure the debt?

P.T.O.

9. Shah a speculator enters into a futures contract or March delivery for 1,25,000 German marks on February 1. The futures exchange rate of the German mark for March delivery (March 15) is $0.5939 per mark. The margin requirement is 2 percent. His expectation of the spot rate for marks on March 15 is $0. 16117.If his expectation proves correct, what would be his rate of return on investment?

10. Explain the rationale behind the theory of Purchasing power parity.

SECTION - C

11. Case Study: (Compulsory)   [1 × 15 = 15]

A French firm has contracted to buy parts from Japan worth ¥15 billion payable in three months. The firm has receivables for goods sold to a Japanese firm valued at ¥5 billion, also due in three months. It is the policy of the firm to hedge all residual currency position. Given the following exchange and interest rates data.

Exchange rate: Spot   3-month forward rate

¥/FF FF1.00 = ¥27.00   ¥/FF FF.100=26.65

Interest rate (% per annum)

France 13.2%

Japan 8.0%

a) Show how the firm can execute the desired hedge in the forward market.

b) If, instead , the hedge is executed in the money market, what steps need to be taken?

c) Calculate the foreign exchange gains(losses) of an unhedged position(compared to a hedged position) if the spot rate in three months if FF 1.00 = ¥26.50.

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