Reg. No. | | | | | | | | | |

MBAS 554

Fourth Semester M.B.A. Degree Examination, September 2020

BUSINESS ADMINISTRATION

International Financial Management

Time : 3 Hours Max. Marks : 70

Instructions : *1) Answer **all** Sections.*

*2) **Marks** are indicated against **each** Section.*

SECTION – A

Answer **any two** questions. **Each** question carries **10** marks. Answer to **each** question should **not** exceed **5** pages. **(2×10=20)**

1. How is a country's economic well-being enhanced through free international trade in goods and services ? Discuss the criteria for a 'good' International monetary system.

2. Discuss the factors to be considered in working capital management in a multinational company and also state the main sources of working capital financing of an MNC.

3. What do you understand by foreign exchange exposure ? Briefly explain the transaction, translation and economic exposure.

SECTION – B

Answer **any three** questions. **Each** question carries **12** marks. Answer to **each** question should **not** exceed **6** pages. **(3×12=36)**

4. Define balance of payments. Why would it be useful to examine a country's balance of payments ? What are the limitations of BOP statements ? Show a typical balance of payments statement.

P.T.O.

5. a) What do you know about foreign exchange market ? How the exchange rate determined in a free market ? What are the factors responsible for exchange rate fluctuation ?

b) The following quotes are given for spot, 1 month, 3 months and 6 months Indian Rupee and US Dollar. Convert these into outright rates with corresponding spreads.

Currency	Spot	1-month	3-months	6-months
Rs./US Dollar	70.2321/2328	18/21	138/133	5/7

6. Write short notes on :

a) Procedure involved in export of goods and services.

b) Eurocurrency market.

7. Suppose The East Asiatic Company (EAC), a Danish company with subsidiaries all over Asia, has been funding its Bangkok subsidiary primarily with U.S. Dollar debt because of the cost and availability of dollar capital as opposed to Thai Baht (B) funds. The treasurer of EAC- Thailand is considering a one-year loan for $350,000, The current spot exchange rate is B42.84/$, and the dollar-based interest is 8.885% for the one-year period.

a) Assume that the expected inflation rates are 4,50% and 2.20% in Thailand and the United States for the coming year, respectively. According to PPP, what would the effective cost of funds be in Thai Baht terms ?

b) If EAC's foreign exchange advisor believe strongly that the Thai government wishes to push the value of the Baht down against the dollar by 5% over the coming year (to promote its export competitiveness in dollar markets), what might the effective cost of funds end up being in Thai Baht terms ?

c) If EAC could borrow Thai Baht at 14% per annum, would this option be more cost effective than part (a) or part (b) above ? Explain with necessary workings.

8. Mr. Y, who trades currencies for Peregrine Investments in Jakarta, Indonesia, focuses nearly all of his time and attention on the U.S. dollar/Singapore dollar ($/S$) cross rate. The current spot rate is $0.6000/S$. After considerable study this week, he has concluded that the Singapore dollar will appreciate versus the U.S. dollar in the coming 90 days, probably to about $0.6000/S$. He has the following options on the Singapore dollar to choose from :

Option	**Strike Price**	**Premium**
Put option on S$	$0.6500	$0.00003/S$
Call option on S$	$0.6500	$0.00046/S$

Questions :

a) Should Mr. Y buy a put on Singapore dollars or a call on Singapore dollars ?

b) Using your answer to Question (a), what is Mr. Y's break-even price ?

c) Using your answer to Question (a), what is Mr. Y's gross profit and net profit (including the premium) if the spot rate at the end of the 90 date is indeed $0.7000/ S$?

d) Using your answer to Question (a), what is Mr. Y's gross profit and net profit (including the premium) if the spot rate at the end of the 90 date is indeed $0.8000/ S$?

SECTION – C

Note : This Section is **compulsory**. It carries **fourteen** marks. **(1×14=14)**

9. Autocars Ltd. of Coventry, England, manufactures British style sports cars, a number of which are exported to New Zealand for payment in pounds sterling. The distributor sells the sports cars in New Zealand for New Zealand dollars. The New Zealand distributor is unable to carry all of the foreign exchange risk, and would not sell Autocare models unless Autocars could share some of the foreign exchange risk. Autocars has agreed that sales for a given model year will initially be priced at a 'base' spot rate between the New Zealand dollar and pounds sterling set to be the spot mid-rate at the beginning of that model year. As long as the actual exchange rate is within ± 5% of that base rate, payment will be made in pounds sterling (that is the New Zealand distributor assumes all foreign exchange risk).

However, if the spot rate at the time of shipment falls outside of this ± 5 range, Autocars will share equally the difference between the actual spot rate and the base rate. For the current model year, the base rate is NZ$1.6400/£.

a) What are the outside ranges within which the New Zealand importer must pay at the then-current spot rate ?

b) If Autocars ships ten sports cars to the New Zealand distributor at a time when the spot exchange rate is NZ$1.7000/£, and each car has an invoice cost of £ 12,000, what will be cost to the distributor in New Zealand dollars ? How many pounds will Autocars receive, and how does this compare with Autocars' expected sales receipts of £ 12,000 per car ?

c) If Autocars ships the same ten cars to New Zealand at a time when the spot exchange rate is NZ$1.6500/£, how many New Zealand dollars will the distributor pay ? How many pounds will Autocars receive ?

d) Does this risk-sharing agreement shift the currency exposure from one party of the transaction to the other ?

e) Why is such a risk-sharing agreement of benefit to Autocars ? To the New Zealand distributor ?