



Sl.No. : 0231

IV Semester M.B.A. Degree Examination, May 2018
BUSINESS ADMINISTRATION
International Financial Management

Time : 3 Hours

Max. Marks : 70

Instruction : Answer all sections. Marks are indicated against each section.

SECTION - A

Note : Answer any TWO questions. Each question carries TEN marks. (2 × 10 = 20)

- Q1)** Explain the meaning and significance of Balance of Payments (BOP). Discuss the recent trends in India's BOP. What are the limitations of BOP Statements?
- Q2)** What factors aid in making the international capital markets more integrated? Explain the importance of emerging capital markets in international investing.
- Q3)** 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.

SECTION - B

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Note : Answer any THREE questions. Each question carries TWELVE marks.

(3 × 12 = 36)

- Q4)** Discuss the characteristics of foreign exchange market. How foreign exchange rate is determined? what are the factors that determine the foreign exchange rate?
- Q5)** Discuss the determinants of transaction exposure. How transaction exposure is different from translation exposure? What are the operational hedging techniques can be used while managing the transaction exposure of an MNC?

Q6) Write a short note on

- a) International Monetary System,
- b) Country Risk Analysis, and
- c) Transfer Pricing.

Q7) Airbus sold an aircraft, A400, to Delta Airlines, a U.S. company, and billed \$30 million payable in six months. Airbus is concerned with the euro proceeds from international sales and would like to control exchange risk. The current spot exchange rate is \$1.05/€ and six-month forward exchange rate is \$1.10/€ at the moment. Airbus can buy a six-month put option on U.S. dollars with a strike price of € 0.95/\$ for a premium of € 0.02 per U.S. dollar. Currently, six-month interest rate is 2.5% in the euro zone and 3.0% in the U.S.

- a) Compute the guaranteed euro proceeds from the American sale if Airbus decides to hedge using a forward contract.
- b) If Airbus decides to hedge using money market instruments, what action does Airbus need to take? What would be the guaranteed euro proceeds from the American sale in this case?
- c) If Airbus decides to hedge using put options on U.S. dollars, what would be the 'expected' euro proceeds from the American sale? Assume that Airbus regards the current forward exchange rate as an unbiased predictor of the future spot exchange rate.
- d) At what future spot exchange rate do you think Airbus will be indifferent between the option and money market hedge?

Q8) a) State the factors affecting international capital budgeting decisions.

- b) A US MNC is planning to install a manufacturing unit to produce 5,00,000 units of an automobile component in India. Setting up of the manufacturing plant will involve an investment outlay of Rs.50 million. The plant is expected to have a useful life of 5 years with Rs. 10 million salvage value. MNC will follow the straight-line method of depreciation. To support the running of business, working capital of Rs. 5 million, will have to be invested; variable cost of production and sales will be Rs.20 per unit. Additional fixed costs per annum are estimated at Rs. 2 million. The forecasted selling price is Rs. 70 per unit. The MNC will be subjected to 30 per cent tax rate in India and its required rate of return is 18 percent.

It is forecasted that the rupee will depreciate in relation to US Dollar @ 2% per annum, with an initial exchange rate of Rs.64/\$

Advise the MNC regarding the financial viability of the proposal with necessary workings.

SECTION-C

Note : This section is COMPULSORY. It carries FOURTEEN marks. (1 × 14 = 14)

Q9) A U.S. Computer Company has a wholly owned British subsidiary, AB Computers that manufactures and sells personal computers in the U.K. market. AB Computers imports microprocessors from Intel, which sells them for \$512 per unit. The current exchange rate is \$1.60/£. AB Computers hires British workers and sources all the other inputs locally. AB faces a 50% income tax rate in U.K. The company currently sells 50,000 units of PCs per year at a selling price of £1000 per unit. The unit variable cost is £650, which comprises £320 for the imported input and £330 for the locally sourced inputs. Each year, the company incurs fixed overhead costs of £4 million for rents, property taxes and others regardless of output level and depreciation allowances of £1 million.

Now, assume that the pound sterling is going to depreciate from \$1.60/£ to \$1.40/£. What are the possible effects of this depreciation of the pound sterling on the projected dollar operating cash flows of AB Computers considering the following three cases?

Case 1 : The company is not going to raise the pound selling price because of stiff competition from a British competitor that manufactures similar products using only locally sourced inputs. No variables change, except the price of the imported input.

Case 2: The selling price (£1143) as well as the price of the imported input changes, with no other changes.

Case 3: All the variables change i.e. the selling price, sales volume, and the prices of both locally sourced and imported inputs change following the pound depreciation. Assume that both the selling price and the price of locally sourced inputs increase at the rate of 8%, reflecting the underlying inflation rate in the U.K. The expected sales are 40,000 units per year.

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