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

4F4

Fourth Semester M.B.A. Degree Examination, May/June 2017
BUSINESS ADMINISTRATION
International Financial Management

Time : 3 Hours

Max. Marks : 70

***Note :** Answer **all** Sections.*

SECTION – A

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

1. Discuss the various techniques used for managing the short term assets and the working capital in MNCs.

2. Discuss the working and utility of interest rate and currency swaps.

3. Discuss the features of various financial instruments available for a company to manage the risks associated with the transactions in the international market.

SECTION – B

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

4. An importer has GBP 500 million to make payment to a UK exporter in six months. Suppose the option premium is Rs. 1.25 and exercise price is Rs. 100.3750 per GBP. Suppose on the day the payment falls due the different possible values of GBP are : Rs. 90, 92, 93, 94, 95, 96, 97, 98, 99, 100, 100.2550, 100.2350, 100.3750, 100.4550, 100.5550, 100.6550, 100.7550, 100.8550, 100.9550, 101.0000, 101.0000, 101.2000, 101.3000, 101.4000, 101.5000, 101.7500, 101.8500, 102.2000, 102.5000, 102.7500, 103.0000, 103.2000, 103.50, 104.00, 104.50, 105.00, 105.50, 105.7500, 106.0000, 106.5000.

   a) Find the position of Indian importer who has bought European call option. Workout his profits/losses for all the above rates scenarios.

   b) Would the profits in (a) above change if the importer had entered into a futures contract with the same exercise price. Show the calculations and profits/ losses.

P.T.O.

5. Assume the point of view of country A and that A's currency is dollars ($), Do the following for the transactions given in a) to g) :

   i) Indicate the account to be debited and credited in each case.

   ii) Enter these transactions in the appropriate "T accounts".

   iii) Prepare the balance of payments for country A. Assume that all the short term capital movements are of a compensating nature.

      a) A imports goods from B for $4,000 and A's importers pay B's exporters for the $4000 with a loan in B's currency which they get from A's bank.

      b) A resident of country A, Mr. X goes on vacation to country B. He spends all the money he had with him, $14000, for service received while on his vacation in country B.

      c) A businessman of A, Mr. Y, decides to build a subsidiary plant in B. Therefore, he ships to B all necessary materials for this purpose, which cost $120,000.

      d) Mr. Y very soon finds out that he needs another $40,000 for the completion of the plant. Thus, he issues bonds on the parent company for this amount and sells them to the citizens of B.

      e) Mr. Y makes $31,000 profit during the first year of operation which Mr. Y uses to enlarge his business in B. A's citizens are very impressed by the successful operation of Mr. Y's plant in B. Therefore, A's citizens buy from B's citizens half of the bonds issued by Mr. Y.

      f) B is a producer of gold. During the period of time for which the BOP is completed, B produces $12 million worth of gold. Half of this is consumed at home. However, 25% is sold to A's Central Bank and 15% is exported to A for industrial use. For the amount of gold exported to A, B accepts a deposit with the Central Bank of Country A.

      g) A citizen of A, Mr. M, who migrated there from B a long time ago, finds out that he has inherited the property of his uncle. The property consists of a farm worth $125,000 and a deposit of $20,000 in B's bank.

6. The following rates are observed in the money market for USA and Italy :

   i) €1=$1.0537, €1 = $1.0895(1 year forward rate)

   ii) Interest rate in Italy is 2% and in USA is 5%.

   a) Assuming no transaction cost or taxes exist, do cover arbitrage profit exist in the above situation ? Describe the flow.

   b) Suppose the transaction cost in foreign exchange market 0.25% per transaction. Do unexploited covered arbitrage opportunities still exist ?

   c) Suppose no transaction cost exists capital gains on currency profits is 25% and the ordinary income tax on interest income is equal to 50%. In this does arbitrage opportunity exist ? How large are they ? Describe the transactions required to exploit these profit.

7. Metalgesselschaft, a leading German metal processor, has scheduled a supply of 25,000 metric tons of copper for October 1. On April 1, copper is quoted on the London Metal Exchange at £ 525 for immediate delivery and £ 575 per metric ton for delivery on October 1. Monthly storage costs are £ 10 per metric ton in London and Euro 17 in Hamburg, payable on the first day of storage.

   a) Exchange rate quotations are as follows : The pound is worth Euro 1.2092 on April 1 and is selling at a 6.5% annual discount. The opportunity cost of capital for Metalgesselschaft is estimated at 10% annually, and the pound sterling is expected to depreciate at a yearly rate of 6.3% throughout the next 12 months.

   b) Compute the Euro cost for Metalgesselschaft, on April 1 of the following alternatives.

   c) Buy 25,000 metric tons of copper on April 1 and store it in London until October 1.

   d) Buy a forward contract of 25,000 metric tons on April 1, for delivery in six months. Cover sterling debt by purchasing forward pounds sterling on April 1.

   e) Buy 25,000 metric tons on October 1.

   f) Can you identify other options available to Metalgesselschaft ? Which one would you recommend ?

8. How would you analyse the country risk ?

SECTION – C

Note : **Compulsory** : **(1×14=14)**

9. Form Product Limited is the Canadian affiliate of USA manufacturing company. The balance sheet in thousands of Canadian dollars for January 1st 2016 is shown below :

January 1, 2016 exchange rate was C$ 1.6 per $

Assets	**Amount**	**Liabilities**	**Amount**
Cash	1,00,000	Current liabilities	60,000
Account receivable	2,20,000	Long term liabilities	1,60,000
Inventory	3,20,000	Capital stock	6,20,000
Net Plant and Equipment	2,00,000		
Total	**8,40,000**	**Total**	**8,40,000**

a) Determine Form Product Limited's accounting exposure on Jan 1, 2017 using different methods of translation.

b) Calculate Product Limited's contribution to its parents according loss if the exchange rate on Dec. 31, 2016 was C$ 1.8 per dollar. Assume all accounts remain as they were at the beginning of the year.