**MC 406**

**Fourth Semester M.Com. Degree Examination, May/June 2017**
**(Choice Based Credit System) (New)**
**COMMERCE**
**Paper – SC 4.5 (B) : International Financial Management**

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any ten** of the following sub-questions. **Each** sub-question carries **2** marks. **(10×2=20)**

1. a) What is international financial management ?
   b) Enlist the name of currencies of any four nations.
   c) What is foreign exchange risk ?
   d) Define economic exposure.
   e) How do you translate inventory under Temporal Method ?
   f) What do you mean by hedging ?
   g) Who is an arbitrageur ?
   h) What is money market hedge ?
   i) What is LIBOR ?
   j) How is the TNC different from MNC ?
   k) A commercial bank quotes a bid rate of $ 0.784 for the Australian dollar and an ask rate of $ 0.80. What is the bid-ask spread ?
   l) It is expected that the inflation rate in India and United States are six percent and three per cent respectively. The present spot rate of US $ is INR 64.50. What will be the expected spot rate in twelve months time ?

SECTION – B

Answer **any four** of the following questions. **Each** question carries **5** marks. **(4×5=20)**

2. What are the functions of international finance manager ?

3. Distinguish between Domestic Financial Management and International Financial Management.

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4. Explain the forex option as a hedging technique. What are its pros and cons ?

5. What is Euro market ? Explain its characteristics.

6. XYZ Inc is operating in US has invoiced sales to an Indian company, the payment being due three months from the date of invoice. The invoice amount is $ 13,750 and at today's spot rate of $ 0.0275 per INR, is equivalent to Rs. 5,00,000. It is anticipated that the exchange rate will decline by 5 per cent over the three months period and in order to protect the dollar proceeds, the importer proposes to take appropriate action through foreign exchange market. The three month forward rate is quoted as $ 0.0273 per INR. you are required calculate the expected loss and to show, how it can be hedged by forward contract.

7. Bharati International, an India-based international company, is evaluating an overseas investment proposal. Its export of generic drugs to UK have increased to such an extent that it is considering a project to build a plant in London. The project will entail an initial outlay of £ 50 and is expected to generate the following cash flows over its four years life :

| Year | Cash flow (in £ million) |
|---|---|
| 1 | 20 |
| 2 | 30 |
| 3 | 20 |
| 4 | 10 |

The current spot exchange rate is Rs. 70 per British Pound (£), the risk-free rate in India is 10 per cent and the risk-free rate in UK is 6 per cent. Bharati International's required rupee return on a project of this kind is 20 per cent. What is the NPV of the project ?

SECTION – C

Answer **any three** of the following questions. **Each** question carries **ten** marks. **(3×10=30)**

8. Compare and contrast the forwards and futures in forex risk management.

9. What is interest rate parity ? How does it work ? Give an example to illustrate your answer.

10. Discuss the factors to be considered for multinational capital budgeting.

11. Write a comprehensive note on variants of interest rate swaps and currency swaps.

12. Rebecca, a manufacturer based in Sydney, Australia, is owned by Cemex Inc of the United States. Rebecca's balance sheet at the current exchange rate of AU$1.60/US$ is shown as follows :

| **Assets, Liabilities and net-worth** | **Amount (AU$)** | **Amount (US$)** |
|---|---|---|
| **Assets** | | |
| Cash and other securities | 3,20,000 | 2,00,000 |
| Accounts receivable | 1,60,000 | 1,00,000 |
| Inventory | 6,40,000 | 4,00,000 |
| Fixed assets | 4,80,000 | 3,00,000 |
| **Total assets** | **16,00,000** | **10,00,000** |
| **Liabilities and Net-worth** | | |
| Accounts payable | 3,20,000 | 2,00,000 |
| Long-term debt | 1,60,000 | 1,00,000 |
| Net-worth | 11,20,000 | 7,00,000 |
| **Total liabilities and net-worth** | **16,00,000** | **10,00,000** |

Identify the impact of a depreciation of the US dollar from AU$1.60/US$ to AU$1.40/US$ on Rebecca's balance sheet under all translation methods and comment on your results.