MBA SEMESTER III EXAMINATION, 2018

Course – MBA-GE- FM 05

International Corporate Finance

Time: 3 Hours Max. Marks: 75

Write Your Roll No. on the top immediately on receipt of this question paper.

Answer any FIVE questions. Each question carries FIFTEEN marks.

1. Write notes on any three of the following:

   a) Benefits and costs of FDI to the host country

   b) Factors affecting Exchange Rates

   c) Forecasting Exchange Rates

   d) International equities and bonds

2. Explain the following three exchange rate systems:

   a) Gold Standard

   b) Bretton Woods System

   c) Free Floating and Managed Floating

3. Differentiate between

   a) Futures and Forwards

   b) Call Option and Put Option

   c) Economic Exposure and Accounting Exposure

4. a) Elucidate the various methods to conduct international business.

   b) How has the growth in international trade and multination corporations been responsible for growing importance of the study of international finance. (7+8)

5. a) In Mumbai, a dealer quotes;

   Spot: Rs. 91.25 – 91.90/ £

   Spot: Rs. 71.00- 71.50/ $

   What do you expect the £ / $ rate in London?

b) The following information is available in Mumbai;

Spot: Rs. 71.35 – 72.00/ $

1 month Swap: 20/ 10

Calculate the outright forward quotation.

c) The following quotes are available in New Delhi;

Spot Rate: Rs. 91.20 – 91.40/ £

2 month forward: Rs. 91.80 – 92.60/ £

i) Calculate the rate applicable for 50 day forward.

ii) Which currency is at premium and which is at discount? (5+4+6)

6. a) Explain the following market terminologies associated with options

i) Option Buyer

ii) Premium

iii) At the money

iv) In the money

v) Out of the money

b) On the basis of the following figures, find out the gain/ loss to the option buyer assuming it be a Call Option and draw the profit profile diagram.

Possible Spot Rates on maturity: US$ 1.20/ £, US$ 1.21/ £, US$ 1.22/ £, US$ 1.23/ £, US$ 1.24/£,US$ 1.25/ £

Strike Rate: US$ 1.22/ £

Premium: US$ 0.01/ £ (5+10)

7. Suppose an Indian Exporter exports goods worth US$ 100,000 from the USA and has to make payments after 90 days. The exporting firm is expecting changes in the exchange rate and thus wishes to hedge its exposure.

The following information is available:

a) Spot rate is Rs. 71.00/ $

b) 90-day forward rate is Rs. 70.50/ $.

c) Interest rate on borrowing in India and the USA is 6% p.a.

d) Interest rate on deposit/ investment in India and the USA is 5% p.a.

e) A 90 day call option is having a strike price of Rs. 70.60 and a premium of Rs. 0.05/$.

f) A 90 day put option is having a strike price of Rs. 70.70 and a premium of Rs. 0.05/$.

g) Spot rate on the 90^{th} day is Rs. 70.70/ $.

Calculate the cash-flow when the exporter;

(i) Does not hedge

(ii) Hedges in the forward market

(iii) Hedges in the options market.

(iv) Hedges in the money market. (2+3+6+4)

8. Companies ABC and XYZ both seek funding of $100,000 at the lowest possible cost. Company XYZ needs a floating rate loan and Company ABC needs a fixed rate loan. They are offered the rates as follows:

	Fixed rate loan	Floating rate loan
Company XYZ	4%	LIBOR
Company ABC	7%	LIBOR + 1.5%

Would the two companies gain if they go in for an interest rate swap?

If yes, design a swap assuming the financial intermediary keeps 0.5% and the remaining gain to be equally shared by the two companies.