MBA SEMESTER III EXAMINATION, 2017

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 out of the following: (5 x 15)

1. a) Name some of the complexities of international financial management compared to domestic financial management.

   b) Why do firms become multinational? Elucidate in this context, the various reasons why firms invest abroad.

2. a) Explain your understanding of the Bretton Woods System. What led to it's collapse.

   b) Explain briefly the prevalent exchange rate regimes in different parts of the world.

3. By taking suitable examples explain the following terminologies used in International finance

   (i) Spread

   (ii) Two-Point Arbitrage

   (iii) Cross Rates

   (iv) Forward Premium

4. a) What will be the forward rate for 2 month and 15 days if:

Spot	: Rs. 65.03 – 65.18/ $
1 – month forward	: Rs. 65.40 – 65.70/$
3 – month forward	: Rs. 65.70 – 66.15/$

   b) On the basis of the following figures, find out the gain/ loss to the option buyer and seller assuming it to be a Put Option.
   Possible Spot Rates on maturity: US$ 1.10/ €, US$ 1.11/ €, US$ 1.12/ €, US$ 1.13/ €, US$ 1.14/€,US$ 1.15/ €

   Strike Rate: US$ 1.12/ €

Premium: US$ 0.01/ €

Also draw the profit profile diagram. (5+10)

5. a) Differentiate between transaction and translation exposure.
   b) What is real-operating exposure? Discuss the strategies to hedge real-operating exposure. (6+9)

6. Suppose an Indian Exporter exports goods worth US$ 10,000 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. 64.00/ $

   b) 90-day forward rate is Rs. 63.50/ $.

   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. 63.60 and a premium of Rs. 0.05/$.

   f) A 90 day put option is having a strike price of Rs. 63.70 and a premium of Rs. 0.05/$.

   g) Spot rate on the 90th day is Rs. 64.00/ $.

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.

7. Companies ABC and XYZ have been offered the following rates per annum on a $ 200 million five year loan:

	Fixed-rate	Floating-rate
Company ABC	12.0	LIBOR + 0.1%
Company XYZ	13.4	LIBOR + 0.6%

Company ABC requires a floating-rate loan; company XYZ requires a fixed-rate loan. Design a swap that will net a bank acting as intermediary 0.1 percent per annum and be equally attractive to both the companies.

8. Write notes on any three of the following: (5x3)

a) Benefits and costs of FDI

b) Factors affecting Exchange Rates

c) Forecasting Exchange Rates

d) International equities and bonds