Roll No.........................

Department of Management
School of Management and Business Studies
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Odd Semester Examination - January 2023 – February 2023
MBA-III Semester
Paper Code: MBA –GE-FM-05
Paper Title: International Financial Management

Duration: 3 Hours **Max Marks: 75**

Note: Attempt any Five Questions, all questions carry equal marks. [15*5=75]

1. (a) Elucidate the various methods to conduct international business.

   (b) An Indian automobile company desires to diversify its product range and also upgrade its facilities by obtaining technical know-how from a Germany based company. Which method you think is the most appropriate to conduct the international business? Why?

2. (a) Do you agree that floating exchange rate regime is a better option than the fixed exchange rate regime? Explain.

   (b) Do you agree a firm that decides not to operate abroad is insulated from the effects of economic events that occur outside the home country? Why/ why not?

   (c) What are the main reasons for the emergence of Eurpean Union and adoption of a common currency?

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

   (i) Spread

   (ii) Two-Point Arbitrage

   (iii) Cross Rates

4. (a) Distinguish between forward contracts and futures contracts.

   (b) What will be the forward rate for 1 month and 25 days if:

Spot	: Rs. 81.03 – 81.18/ $
1 – month forward	: Rs. 81.40 – 81.70/$
3 – month forward	: Rs. 81.70 – 82.15/$

   (c) What is marking to the market? Explain it with a suitable example.

5. (a) What are the different types of Exposures?

(b) An Indian importer imports goods worth $100,000. He expects an appreciation of dollars and hence goes for hedging the risk. The currency market has the following data:

(i) Spot rate on the date of the contract Rs. 81.00/$

(ii) three-month forward rate Rs. 81.50/$

(iii) Strike rate in a three-month call option Rs. 81.60/$ with premium of Rs.0.05/$

(iv) Strike rate in a three-month put option Rs. 81.80/$ with premium of Rs.0.05/$

(v) Spot rate on the date of maturity Rs. 81.90/$

Should he go for a hedge? If so, which of the method of hedging should he select?

6. (a) What is a currency call option and a currency put option?

(b) Explain the terms 'in-the-money', 'at-the-money' and 'out-of-the money', with the help of examples.

(c) Panna Lal and Ram Lal Brothers Firm purchased a call option on British pounds for $ 0.02 per unit. The strike price was $1.25 and the spot rate at the time the pound option was exercised was $ 1.27. Assume there are 62,500 units in a British pound option. What was Panna Lal and Ram Lal Brothers Firms net profit on this option?

7. (a) Differentiate between interest-rate swap and currency rate swap.

(b) Two companies, Fido Manufacturing and Zoozoo Products both seek funding of $100,000 at the lowest possible cost. Fido is the more creditworthy company as compared to Zoozoo. They face the following interest-rate structure.

	Fido	**Zoozoo**
Fixed rate cost of borrowing	7%	10%
Floating rate cost of borrowing	LIBOR +1%	LIBOR + 2%

Fido would prefer the flexibility of floating-rate borrowing, while Zoozoo wants the security of fixed-rate borrowing. Should the two companies borrow from the market what they need or go for a swap. In case of a swap, assume the parties can use Large Bank, which charges a fee of 40 basis points (0.40%) to arrange the swap. Explain.

8. Write notes on any three of the following:

a) Benefits and costs of FDI to the host countries

b) Bretton Woods system

c) Factors affecting Exchange rates

d) Role and responsibilities of IMF

e) Internal Hedging Strategies