MBA SEMESTER III EXAMINATION, 2019

Course – MBA-GE- FM 05

International Financial Management

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. a) Explain the different modes of International Business.

b) Given the added political and economic risks that appear to exist overseas, are multinational firms more or less risky than pure domestic firms in the same industry? Consider whether a firm that decides not to operate abroad is insulated from the effects of economic events that occur outside the home country. (5+10)

2. a) In New Delhi, a dealer quotes;

Spot: Rs. 92.2525 – 93.0000/ £

Spot: Rs. 53.6800 – 54.2525/ Cn$

What do you expect, how much will a dealer quote the Cn$ in terms of pound in London?

b) A foreign exchange trader gives the following quotes for the Pound Sterling spot, one month and three months to US based treasurer.

Spot	$ 1.29/ 1.31
1 month Forward swap quote	04/06
3 month forward swap quote	05/08

i) Calculate the outright quotes for one and three months forward.

ii) If the treasurer wished to buy 100 Pound Sterling three months forward, how much would he pay in dollars?

iii) Assuming that the Pound Sterling are being bought, what is the premium or discount for the three month forward rates? (5+9)

3. a) What are the basic differences between forward and futures contracts?

b) On Monday morning, an investor takes a long position in a pound futures contract that matures on Wednesday afternoon. The agreed –upon price is $ 1.30 for £62,000. At the close of trading on Monday, the futures price rises to $1.32. At Tuesday close, the price rises further to $ 1.33. At Wednesday close, the price falls to 1.31 and the contract matures. The investor takes delivery of the pounds at the prevailing price of $1.31. Detail the daily settlement process. What will be investor's profit (loss)? (7+8)

4. What is the difference between a call option and a put option.

On the basis of the following figures, find out the gain/ loss to the option seller assuming it a

(i) Call Option

(ii) Put Option

Possible Spot Rates on maturity: Rs. 71.00/ $, Rs. 71.20/ $, Rs.71.40/ $, Rs. 71.60/$, Rs. 71.80/$, 72.00/$

Strike Rate: Rs. 71.60/$

Premium: Rs. 0.10/ $

Also draw profit diagrams.

5. a) Should an exporter use the spot rate or forward rate for quotation? Why?

b) Why do companies involved in international trade have to hedge their foreign exchange exposure?

c) Is devaluation good for exports and imports? Explain by taking suitable examples. (5+5+5)

6. a) Assume that ABC company has net receivables of $ 1000 in 90 days. The spot rate of the Dollar is Rs. 71.00 and the interest rate is 3% over 90 days. Explain briefly how an Indian firm can implement a money market hedge?

b) Suppose a firm is importing goods for $10,000 and the amount is to be paid after 2 months. The importer can hedge the risk by using a put option. For a put option, the strike price is Rs. 71.00/ $ and the premium is Rs. 0.05 per dollar. For a call option, the strike price is Rs. 70.95/ $ and the premium is Rs. 0.05 per dollar. The spot price at maturity is Rs. 70.85. Determine the importer's cash flow when

i) He has hedged using a put option.

ii) He has hedged using a call option.

iii) He has hedged using a put and a call option simultaneously.

iv) He had left his payables unhedged. (7+8)

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

(b) By taking a suitable example, explain in detail the interest rate swap. (5+10)

8. Write notes on any three of the following: (3x5)

(a) Brettonwoods system

(b) Factors affecting Exchange rate

(c) Internal hedging Strategies

(d) Benefits of FDI