C/16/MBA/4th Seme./F-401

NEW

2016

M B A

4th Semester Examination

Subject : INTERNATIONAL FINANCIAL MANAGEMENT

(Specialization : Financial Management)

PAPER—F-401

Full Marks : 100

Time : 3 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

1. Answer any *four* questions : 4×5

(a) Who are the common market participants in the Foreign Exchange Market ?

(b) Distinguish between Hedging and Speculation. Also explain the Long and Short positions of speculators.

(Turn Over)

(c) What is an 'Arbitrage' operation ? Describe the arbitrage process.

(d) Distinguish between Portfolio Investment and Foreign Direct Investment. Which type of investment a Multinational Corporation may be interested in and why ?

(e) Distinguish between the main features of a forward exchange contract and a futures exchange contract.

(f) From the following data find out the possibilities of arbitrage gain, if any :

Spot Exchange Rate : US$ 1·4132 / £

6 months Forward Exchange Rate : US$ 1·3930 / £

Annualised interest rates (6 month) : US$: 3·5%, British £ : 7%.

2. Answer any two questions : 2×10

(a) (i) Prove that in the absence of transaction cost, 'Forward Exchange Rate' is equal to the 'Expected Future Spot Rate'.

(ii) How can you compute Direct Exchange Rate using Cross Rates under transaction cost regime ?

3+7

(b) Given the following information :

Spot rate on maturity : US \$ 0·8540/DM

Strike rate : US \$ 0.8450/DM

Premium : US \$ 0.0025/DM

Find out the following assuming it to be a (x) call option, and (y) put option :

(i) The intrinsic value of the German Mark Options Contract ;

(ii) Gain or loss to the option buyer ;

(iii) Gain or loss to the option seller. 2+4+4

(c) (i) Compare the Pay-off profiles of a buyer and a seller of a Future contract. Use imaginary data.

(ii) Write an explanatory note on Effective Exchange Rate. 5+5

3. Answer any *four* questions : 4×5

(a) Explain parent cash flows and project cash flows in relation to foreign investment analysis. 5

(b) (i) An American based multinational firm has a subsidiary in India. The subsidiary is planning to issue 16% Pref. share (non-participating) of Rs. 100 each at par. Flotation costs of the expected sale price are estimated at 5%. Determine the cost of pref. shares.

(ii) A French subsidiary operating in Africa has cost of equity of 15%, it is estimated that repatriation will cause incremental taxes in Africa and France to the tune of 20%, transfer costs on remittance are likely to be 1 per cent.

Determine the cost of retained earnings.

$2\frac{1}{2}+2\frac{1}{2}$

(c) State the objectives of international working capital management. 5

(d) Explain in brief, financial intermediation function of international banks. 5

(e) A foreign project involves initial investment for $ 60,00,000. The net cash inflows expected during the first, second and third years are $40,00,000, $45,00,000 and $30,00,000 respectively. At the end of the third year, the scrap value is indicated at $ 20,00,000. The risk-adjusted discount rate is 10%. Calculate NPV. 5

(f) (i) What do you mean by Stockpiling?

(ii) Total demand for raw materials is 120 tonnes during time T. The carrying cost is \$10 per tonne of stock during time, T and the order cost is \$1 per order.

Will you call it stockpiling if the firm makes an order for 6 tonnes of raw materials?

2+3

4. Answer any *two* questions : 2×10

(a) Describe the different ways of internationalisation of banks.

(b) Explain the factors that add complexity to Capital Budgeting decisions for projects.

(c) A hypothetical MNC is faced with a problem to choose between the following two options :

(i) Continue to export every year 200000 units of a product at a unit price of US \$ 80 ; its variable cost per cent is \$ 45.

(ii) Install a manufacturing unit to produce 500000 units in the country X — the destination for exports.

Setting up of the manufacturing plant will involves the following information

1. Investment outlay $ 50 million ;
2. Life of the plant — 5 years
3. Straight Line method of depreciation is followed ;
4. Working Capital — $ 5 million ;
5. Fixed Cost — $ 2 million
6. Variable cost of production — $ 20 per unit ;
7. Selling price — $ 70 per unit
8. Selling units — 500000 units ;
9. Tax rate — 40% ;
10. Cost of Capital — 15%
11. Salvage value of plant — $ 10 million.

Assuming that there will be no variation in the exchange rate between the two countries and all profits can be repatriated, advice the MNC regarding the financial viability of the proposal.

[*Internal Assessment : 20 Marks*]