2018

MBA

4th Semester Examination

INTERNATIONAL FINANCIAL MANAGEMENT

(Specialisation : Financial Management)

PAPER—F-401

Subject Code—09

Full Marks : 100

Time : 3 Hours

The figures in the 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) Explain how does inflation influence exchange rate.

(b) What is 'J-curve Effect'? Illucidate.

(c) Given the following exchange rates :

£|₹ : 85.3423

(Turn Over)

¥|₹ : 0.6244

£|$: 1.3844

Calculate $|¥.

(d) A firm invested in USA of $5 million at exchange rate 62.5 ₹ per doller. The investment subsequently increased to $ 5.5 million but exchange rate declines to 61.3 ₹ per doller. Calculate financial exposure.

(e) What do you mean by Purchasing Power Parity ?

(f) In a day, New York and Chicago Foreign Exchange rates are as follows :

NY : $|₹ : 62.5041|62.5073

Chicago : $|₹ : 62.5018|62.5027

Is there any possibility of arbitrage ? Justify.

(g) What is Big-Mac Index ?

(h) An Indian merchant purchases 182 day forward contract of 1 million doller at the strike rate $|₹ 64.8836. If spot rate is ₹ 64.8942, what will be the merchant's profit/ loss on expiry of the contract assuming no brokerage charge is paid ?

(i) Give an outline of differential exchange rate systems prevail accross the globe.

(j) Explain with hypothetical example the pay-off for a buyer of currency futures.

(k) If risk premium is 8%, risk free interest rate is 7%, estimated β is 0.92, calculate cost of equity.

(l) A bank sells 3 month call option at a strike price $|₹ 61.3118 with premium charge of rupee one per doller. What decesion the firm will take if spot rate is ₹ 62.4437 ?

2. Answer any *two* questions : 2×10

(a) How do you link globalization to financial market ? Elaborate.

(b) An Indian firm decides to invest 25 million doller in an US project. Expected net cash flows are given below :

Year :	1	2	3	4	5
Cash Flow (Million $) :	4	10	10	12	12

Calculate the feasibility of the project using NPV method in Rupees if current exchange rate is $|₹ 60.5, expected rate of return 20% and inflation rate in India and USA is 5% and 2% respectively.

(c) Given spot exchange rate : $|₹ 65.48 and 6 month forward rate is ₹ 64.33. If annualised interest rate in India is 6% and USA is 4%, calculate arbitrageur's profit/loss, if any.

(d) Draw a BOP accounting framework adapted in India.

(e) Explain with example how the option market operates in foreign exchange trading.

(f) Differentiate currency forward and currency futures.

[Internal Assessment : 20]