M.Com. 2nd Semester Examination, 2010

INTERNATIONAL BUSINESS FINANCE

PAPER — CM-1204

Full Marks : 50

Time : 2 hours

The figures in the right-hand margin indicate marks

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

Illustrate the answers wherever necessary

Write the answers questions of each Unit in separate books

UNIT—I

1. Answer any *two* of the following questions : 5 x 2

(*a*) Explain why it is said that balance of payments always balances.

(*b*) What different organizational forms are found in international business ?

(Turn Over)

(*c*) Discuss briefly the advantages of direct foreign investment.

(*d*) Present a comparative description of Market Economy, Command Economy, and Mixed Economy.

2. Answer any *one* of the following questions : 10×1

(*a*) How do macro-economic factors like economic growth and inflation affect international business ? 5+5

(*b*) Present an overview of benefits and costs associated with transfer of technology through multinational corporations. 10

UNIT—II

3. Answer any *two* questions : 5×2

(*a*) Who are the participants in the foreign exchange market ?

(*b*) Write a short note on spot market and forward market.

(*c*) The following exchange rates are given :

Market 1 : Rs. 42·30 = $ 1
Market 2 : Rs. 80·50 = £ 1
Market 3 : 1 $ = £ 0·65

Is it possible to earn profits through triangular arbitrage ? If yes, calculate percentage of profit.

(*d*) What do you understand by 'spread' ? How can you earn profit in the situation given below ?

	Bank 1	Bank 2
Bid rate for US $	Rs. 46·50	Rs. 48·50
Ask rate for US $	Rs. 47	Rs. 49

4. Answer any *one* of the following : 10×1

(*a*) (*i*) Write a short note on leading and lagging technique.

(*ii*) An Indian firm has a 60-day receivables of $ 10,000 from a US buyer. The market rates are :

Spot rate — Rs. 48 / $
60-day forward rate — Rs. 46·50/$
Interest rate in India — 9% p.a.
Interest rate in US — 6% p.a.

How will the Indian firm hedge its receivables ? [Assume 1 year = 360 days]

5 + 5

(*b*) (*i*) Why are 'options' so colled ?

(*ii*) An Indian firm has to make a payment of £ 15,000, 90 days from now. Since, it fears depreciation of the rupee, it wants to hedge its payables. Two options are available in the market call and put about which the detailed information is given below :

(*I*) *Call option*

Exercise price — Rs. 77·50 /£
Call premium — Rs. 1·50/£

(*II*) *Put option*

Exercise price — Rs. 76 /£
Put premium — Rs. 1·25/£

The firm thinks that the spot rate after 90 days could be Rs. 76·50 /£ or Rs. 78·00/£ or Rs. 79·00/£.

What will be the cash outflow in each of the three cases? Show detailed calculations. [Assume one year = 360 days] 4 + 6

[*Internal Assessment* — 10 Marks]

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