2016

M. Com.

2nd Semester Examination

INTERNATIONAL BUSINESS FINANCE

PAPER — COM-204

Full Marks : 50

Time : 2 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.

Unit—I

[Marks : 20]

1. Answer any *two* questions from the following : 2×5

   (a) What is the importance of International Business in relation to developing countries? 5

   (b) Calculate Balance of payment from the following information : 5

(Turn Over)

i.	Merchandise export :	Rs. 20,000 Cr.
ii.	Transport services sold abroad	Rs. 150 Cr.
iii.	Insurance services sold abroad	Rs. 10 Cr.
iv.	Income from foreign tourist	Rs. 175 Cr.
v.	Interest Paid to World Bank	Rs. 550 Cr.
vi.	Merchandise import :	Rs. 24,500 Cr.
vii.	Foreign Institutional Investment	Rs. 580 Cr.
viii.	Long term loan from IMF :	Rs. 870 CR.
ix.	Remittances from NRIs to India	Rs. 710 Cr.
x.	Interest on deposit of Foreign Bank	Rs. 225 Cr.

(c) Write a short note on international liquidity.

(d) What do you mean by international business environment ? How do economic factors affect it ?

2. Answer any *one* question from the following : 1×10

(a) What are the different components of Balance of Payment ? How do different means taken by government help to control disequilibrium in balance of payment ?

2+8

(b) What do you mean by the International Financial Institution ? Why was World Bank set up ? Discuss the organisation structure of the World Bank. What are the functions of this institution ? 1+2+3+4

Unit—II

[Marks : 20]

3. Answer any *two* questions from the following : 2×5

(a) Prove that if the forward premium approximates the interest rate difference between two countries, it points to a no arbitrage condition.

(b) The following information is given to you :

Spot rate : Rs. 65·50/$

Interest rate in India (home country) is 7·8% per annum.

Interest rate in USA (foreign country) is 8·8% per annum.

Using the above data, determine the 60 days forward rate.

(c) Write the short note on the forward market.

(d) How does change in interest rates affects the equilibrium exchange rate ? Explain with the help of a diagram.

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

(a) (i) What do you understand by 'parallel loans' in the context of hedging?

(ii) The following is the balance sheet of PZ Ltd., an Indian subsidiary of a US parent company.

Balance Sheet of PZ Ltd. as at 31.3.2015

Liabilities	*Amt. (Rs.)*	*Assets*	*Amt. (Rs.)*
Share capital	15,00,000	Fixed assets	10,00,000
Reserves	2,80,000	Investments	5,50,000
10% Debentures (*maturity in 2019*)	2,00,000	Stock	4,20,000
Loan from SBI (to be repaid by December, 2016)	2,70,000	Cash in hand & Cash at Bank	1,70,000
Current liabilities	50,000	Other current assets	2,20,000
Other liabilities	60,000		
Total	23,60,000	*Total*	23,60,000

Additional Information :

- The current rate and the historical rates are Rs. 62·50/$ and Rs.64·80/$ respectively.
- The composite value for share capital and reserves is given as $ 24,890 and $ 4,520 respectively.

Applying the current rate method determine the following :

(a) The value of net exposed assets, and

(b) The gain or loss arising due to translation exposure.

4+(2+4)

(b) (i) What is an option ? Write down the difference between a European option and an American option.

(ii) Lucky Ltd. has exported goods worth £ 85,000 to a XYZ Ltd. based in UK. Since the credit period is 3 months and the domestic currency is expected to appreciate against the pound, it wants to hedge its receivable. For the purpose, it is thinking of two ways, through money market hedging or hedging using options. The relevant details are given below :

Spot rate : Rs. 103·50/£

3-month forward rate : Rs. 101·80/£

Interest rate in India per annum : Deposit – 7·8%,

Borrowing – 10·20%

Interest rate in United Kingdom per annum :

Deposit – 4·6%, Borrowing – 6·6%

Strike price of the put option is Rs. 104·90/£.
Put option premium is Rs. 2·50 per pound.
Expected spot rate after 3 months :

Spot rate (Rs.)	*Probability*
102·50	0·40
103·50	0·25
106·50	0·35

You are required to suggest the better option. Show detailed calculations. (3+1)+6

[Internal Assessment : 10 Marks]