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2016

M B A

4th Semester Examination

Subject : INTERNATIONAL FINANCIAL MANAGEMENT

(Specialization : Financial Management)

PAPER—F-402

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.

Write the answers to Questions of each Half in separate books.

(First Half)

(Marks : 50)

1. Answer any *four* questions : 4×5

(a) Distinguish between (i) European terms and Dollar Equivalent terms of foreign exchange quotes, (ii) European options and American options.

(Turn Over)

(b) Discuss the gains and losses of the option trade.

(c) Explain 'Intrinsic Value' and 'Time Value' of an Option contract.

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

Spot Exchange Rate	: US\$ 1·6763 / £
6-months Forward Exchange Rate	: US\$ 1·6561 / £
Annualised interest rates (6-month)	: US\$: 4%, British £ : 7·5%.

(e) Enumerate the differences between International Financial Management and Domestic Financial Management.

(f) What is Futures Contract ? What are its common features ?

4. Answer any *two* questions : 2×10

(a) (i) Give a brief overview of the structure of a spot foreign exchange market.

(ii) Compare the Pay-off profiles of a buyer and a seller of a Futures contract. Use imaginary data.

5+5

(b) (i) "A Futures contract is similar to a string of bets on exchange rate". Explain the statement.

(ii) Why are margins maintained with respect to a currency futures contract but not with currency forward contracts?

5+5

(c) (i) A trader buys a Swiss franc futures contract (contract size is SFr 1,25,000) at a price of \$0·83. If the spot rate for the Swiss franc at the data of settlement is SFr 1 = \$0·8250. What is the trader's gain or loss on this contract?

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

5+5

[*Internal Assessment : 10 Marks*]

(Second Half)

(Marks : 50)

3. Answer any *four* questions : 4×5

(a) Explain in brief, different forms of lending risks in process of financial intermediation by international banks.

(b) Explain a plain interest-rate swap with a suitable example.

(c) Write a short note on credit creation function of International Banks.

(d) A subsidiary company's cost of equity is 20 per cent. Assume further that the company's entire profits earned are repatriated to its parent company overseas. It is estimated that repatriation costs in terms of with holding taxes and other transfer expenses incurred will be 25 per cent. Determine the cost of retained earnings (Kr).

(e) Explain the Adjusted Present Value approach.

(f) State the reasons for holding cash by a multinational firm.

4. Answer any *four* questions : 2×10

(a) Is international working capital management more complex than the domestics working capital management ? Discuss.

(b) Should international banks be controlled ? What are the ways of controlling then ?

(c) How can International Investment Decisions be made in the light of cash flow approach, Cost of Capital approach and adjusted present value approach ? 10

[***Internal Assessment : 10 Marks***]