

**NEW**

**2018**

**M.Com. 4th Semester Examination**

**INTERNATIONAL FINANCIAL MANAGEMENT**

**PAPER—COM-402**

**Subject Code—03**

*Full Marks : 50*

*Time : 2 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.*

**Unit - I**

(Marks : 20)

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

(a) Define the following terms in the context of forex market :

(i) bid-offer spread ;

(ii) forward rate differential. 2×2½

*(Turn Over)*

- (b) What do you mean by direct quotation and indirect quotation ? What is the necessity of spread ? 3+2
- (c) Differentiate between speculation and arbitraging.
- (d) Write short notes on : 2×2½
- (i) arbitrage ;
- (ii) hedging.

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

- (a) (i) Explain covered interest arbitrage with suitable example.
- (ii) The 90 day interest rate is 1.75 percent in the US and 1.25 percent in the UK.

The current spot exchange rate is \$ 1.5/£. What will be the 90 day forward rate ?

(iii) One-year US nominal interest rate is 3 percent and one-year Indian nominal interest rate is 8 percent. The current spot rate is ₹ 64.50. What is the expected spot rate one year hence ? 6+2+2

(b) What do you mean by international Fisher Effect ? Discuss the Interest Rate Parity theory. 3+7

### Unit - II

(Marks : 20)

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

(a) Write a short note on American Depository Receipts.

(b) Explain the term 'transaction exposure'.

(c) Why is an option so called ? Draw the pay-off diagram for a put option writer. Make necessary assumptions. 2+3

(d) What are the different risks that an international business is exposed to ? Discuss.

4. Answer any one from the following :

1×10

- (a) (i) What do you understand by 'leading and lagging' as a technique for hedging ?
- (ii) You are given the following balance sheet of SP Ltd., an Indian subsidiary of an EU-based parent company.

Balance Sheet as on 31.3.2018

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share capital	25,00,000	Land and Building	10,00,000
Reserves	4,50,000	Investments	9,50,000
13.5% debentures (maturity in 2025)	4,00,000	Sundry debtors	4,25,000
Loan from UCO Bank, Payable in March 2019	5,50,000	Stock	6,79,000
Interest Outstanding on UCO Bank loan	35,000	Cash in hand	5,95,000
Sundry creditors	85,000	Other current assets	3,86,000
Other current liabilities	15,000		
	40,35,000		40,35,000

The following information is further given :

- (i) The composite values of share capital and reserves are Euro 35,325 and Euro 5,298 respectively.
- (ii) The current and historical rates are Rs. 81.80 per Euro and Rs. 83.50 per Euro respectively.

You are required to apply the monetary / non-monetary method to determine the gain or loss arising due to translation. 4+6

- (b) (ii) Erudite Ltd., an Indian-based company has imported goods worth \$ 1,05,000 from PQ Inc., a US-based seller with a credit period of four months. The company wants to hedge its payables as it expects the domestic currency to depreciate against the foreign currency. For hedging, it is thinking of two options, namely forward market hedging and options hedging. the relevant details are given below :

Spot rate : Rs. 63.90 / \$

4-month forward rate : Rs. 65.20 / \$

4-month interest rates in India : Deposit -2.5%,  
Borrowing - 3.6%

4-month interest rates in United Kingdom : Deposit – 1.5%, Borrowing – 2.3% Exercise price of the call option is Rs. 64.30 / \$ with a premium of Rs. 2.90 / \$.

The probabilistic estimates of the spot rate after 4 months are :

Spot rate (Rs./\$)	Probability
62.50	0.25
65.00	0.40
66.10	0.35

You are required to make necessary calculations to suggest the better option for hedging.

- (ii) Explain the concept of 'netting' as a technique of managing exposure. The following is the list of transactions along with their due period of settlement as given by AD Ltd., an Indian-based company.

Transaction	Currency	Transaction amt.	Period of settlement
Purchase of goods	\$	50,000	3 months
Sale of goods	Pound	23,560	2 months
Interest payment	Pound	3,200	3 months
Purchase of goods	Pound	40,288	2 months
Purchase of goods	Euro	80,500	4 months
Interest received	Pound	4,280	1 month
Sale of goods	Euro	51,609	1 month
Interest received	\$	28,730	3 months
Sale of goods	Euro	69,955	4 months

You are required to compute the net amount of exposure for different periods of settlements. 2+3

**[ Internal Assessment — 10 Marks ]**

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