 MBA/IVS/F-402/12

2012

MASTER OF BUSINESS ADMINISTRATION

[Fourth Semester Examination]

INTERNATIONAL FINANCIAL MANAGEMENT

(Specialisation : *Financial Management*)

PAPER—F 402

Full Marks : 100

Time : 3 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 to questions of each Half in separate books

(*Turn Over*)

FIRST HALF

[*Marks* : 50]

1. Answer any *four* questions : 5 × 4

(*a*) What are the motives behind the growth of Multinational Corporations ?

(*b*) Distinguish between :

(*i*) European terms and Dollar Equivalent terms of foreign exchange quotes.

(*ii*) European options and American options.

(*c*) Draw the Pay-off profile of a Currency Futures contract on the basis of an example and assuming suitable exchange rate data.

(*d*) Make a distinction between direct and indirect quote of exchange rate. Give example.

(*e*) What is a Forward Exchange Rate ? Is 'Swap' a forward rate ? How can a swap rate be converted into an outright rate ? Explain with an example.

(*f*) Explain how inflation can affect the currency exchange rate.

2. Answer any *two* questions : 10 × 2

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

(*ii*) Describe the roles of the common market participants in the foreign exchange market.

5 + 5

(*b*) Given the following information :

Spot rate on maturity : US \$ 0.8540/DM
Strike rate : US \$ 0.8450/DM
Premium : US \$ 0.0025/DM

Find out the following assuming it to be a (*x*) call option, and (*y*) put option :

(*i*) The intrinsic value of the German Mark Options Contract;

(*ii*) Gain or loss to the option buyer;

(*iii*) Gain or loss to the option seller. 2 + 4 + 4

(*c*) (*i*) Critically examine the differentiating features of a Futures contract vis-á-vis a Forward contract.

(*ii*) Explain the factors that determine of the market values of currency options contracts ? 5 + 5

[*Internal Assessment* : 10 Marks]

SECOND HALF

[*Marks* : 50]

3. Answer any *four* questions : 5 × 4

(*a*) State the reasons behind internationalisation of banks.

(*b*) Distinguish between International Capital Budgeting and Domestic Capital Budgeting

(*c*) Total demand for raw materials is 100 tonnes during time *T*. The carrying cost is \$ 10 per tonne of stock during time *T* and the order cost is \$ 1 per order. Will you call it stockpiling if the firm makes an order for 6 tonnes of raw material ?

(*d*) Mention the objectives of International Working Capital Management.

(*e*) Write about Re-cycling of petrodollars giving example.

(*f*) State the features of 'Interest rate swap.

4. Answer any *two* questions : 10 × 2

(*a*) Explain the different forms and ways in which a bank goes international. 10

(*b*) (*i*) Principal amount of debt Rs. 1 billion. Rate of interest — 16%. Flotation cost of debt — Rs. 60 million. Interest is to be paid at the end of each year and the principal sum borrowed is to be repaid in a lumpsum at the end of the 5th year. Subsidiary is subject to no taxes in India. The rupee is expected to depreciate in relation to the US dollar at the rate of 3% each year for 5 years. Determine the effective cost of debt to the US parent MNC. Assume the current exchange rate of US \$ to Indian rupee to be 36.

(*ii*) The American multinational equity shares have β of 1.2 while the riskless rate of return is 5% and the market rate of return is 10%. Find out the cost of equity capital of the American multinational. 5 + 5 (*c*) Write short notes on : 5 + 5

(*i*) Real options and project appraisal

(*ii*) Leads and Lags.

[*Internal Assessment* : 10 Marks]
