 MBA/IVS/F-402/13

2013

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

FIRST HALF

[*Marks* : 50]

(*Turn Over*)

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

(*a*) What is a Multinational Corporation ? In what different forms can a business enterprise take entry in a foreign country through investment mode ?

(*b*) Write an explanatory note on Effective Exchange Rate.

(*c*) What is an 'Arbitrage' operation ? Describe the arbitrage process.

(*d*) Compare the pay-off profiles of a buyer and a seller of a Futures contract. Use imaginary data.

(*e*) Explain 'Intrinsic Value' and 'Time Value' in Options contract.

(*f*) Mention the important features of a Futures contract.

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

(*a*) On 4th June 2013, Rakesh bought 5 lots (of size 250 each) of "Tata Motors Rs. 1,090, July" options through his broker at a premium of Rs. 13 per share. The spot price of Tata Motors on 4th June, 2013 was Rs. 1,059. Subsequently following prices were observed by him :

Date	Closing Spot price of Tata Motors (Rs.)	Premium on the Options "Tata Motors (250), Rs. 1,090, July" (Rs.)
8th June	1,070	37
12th June	1,085	14
16th June	1,100	5
28th June	1,050	51
6th July	1,120	4
16th July	1,165	3
22nd July	1,200	2
28th July	1,229	1

If Rakesh reverses his position from Long to short (i.e., sells) on one lot of his options on

12th June and on further one lot on 28th June and the rest of the lots are exercised by him on the expiry i,e., 28th July 2013, then calculate the total Pay-offs for Rakesh. 10

(*b*) Explain Direct, Indirect, and Cross Exchange rates. Prove that in the presence of transaction costs, Direct exchange rates move within limits set by Indirect exchange rates. 3 + 7

(*c*) (*i*) Explain with example the 'Marking to Market' principle in Futures contract.

(*ii*) Determine the Settlement dates for the following foreign exchange contracts : 7 + 3

Date of the contract	Day of the contract	The contract	Period	Date & Day
28.01.2013	Monday	Spot	----	-----
28.03.2013	Thursday	Forward	3 months	28.06.2013 –Friday
30.03.2013	Saturday	Forward	2 months	30.05.2013 –Thursday

[*Internal Assessment* – 10 Marks]

SECOND HALF

[*Marks* : 50]

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

(*a*) Explain, in brief, the factors that add complexity to foreign capital budgeting decisions. 5

(*b*) Distinguish between Net Present Value and Internal Rate of Return. 2 + 3

(*c*) Why is working capital management in MNCs complex ? 5

(*d*) What do you mean by Swap ? State, in brief, the essential conditions of the Interest-Rate Swap ? 2 + 3

(*e*) Write short notes on : $2\frac{1}{2} \times 2$

(*i*) floating loans,

(*ii*) blocked funds.

(*f*) Describe the different modes of internationalisation of banks. 5

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

(*a*) What are the motivational factors behind internationalisation of banks? How do International Bank intermediate in the Foreign Exchange Market? 6 + 4

(*b*) A US MNC is planning to install a manufacturing unit to produce 5,00,000 units of an automobile component in India. Setting up of the manufacturing plant will involve an investment outlay of Rs. 50 million. The plant is expected to have a useful life of 5 years with Rs. 10 million salvage value. MNC will follow the straight-line method of depreciation. To support the running of business, working capital of Rs. 5 million, will have to be invested ; variable cost of production and sales will be Rs. 20 per unit. Additional fixed cost per annum are estimated at Rs. 2 million. The forecasted selling price is Rs. 70 per unit. The MNC will be subjected to 40 percent tax rate in India and its required rate of return is 15 percent.

It is forecasted that the rupee will depreciate in relation to US dollar @ 3 percent per annum, with an initial exchange rate of Rs. 48/$. According, the exchange rates for the relevant 5-year period of the project will be as follows :

Year	Exchange rate
0	Rs. 48/$
1	49·44/$
2	50·92/$
3	52·45/$
4	54·02/$
5	55·64/$

Advise the MNC regarding the financial viability of the proposal. 10

(*c*) Write short notes on : 5 + 5

(*i*) Sensitivity Analysis ;

(*ii*) Benefits and Costs of Receivables.

[*Internal Assessment* – 10 Marks]