M.Com. 2nd Semester Examination, 2012

INTERNATIONAL BUSINESS FINANCE

PAPER— COM-204

Full Marks : 50

Time : 2 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 Unit in separate books

UNIT – I

[*Marks* : 20]

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

(*a*) Describe briefly the factors involved in international business environment.

(*b*) Write a note on the Investment mode of International Business.

(*Turn Over*)

(*c*) Distinguish between GDP and GNP. Why is GNP used to describe economic status of a country ?

(*d*) What are the common reasons behind statistical discripancy in the Balance of Payments (BOP) Account of a country ?

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

(*a*) What are the factors that cause disequilibrium in the balance of payments ? What corrective measures can be taken to check disequilibrium in the balance of payments ? 4 + 6

(*b*) Which economic information of a country would you consider essential for a decision to establish an international business establishment in a foreign location ? What is a Multinational Corporation (MNC) ? What are the alternative motives behind rapid growth of MNCs ? 3 + 2 + 5

UNIT – II

[*Marks* : 20]

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

(*a*) State the main features of the foreign exchange market. 5

(*b*) What do you mean by options ? Explain with the help of a diagram the profit or loss to a put option buyer. 5

(*c*) The following information is given to you :

	Bank ABC	Bank PQR
Bid price of French Francs	\$ 0·411	\$ 0·409
Ask price of French Francs	\$ 0·415	\$ 0·407

Calculate the percentage of profit that can be made through locational arbitrage. What adjustments will take place that will bring the arbitrage to an end ? 3 + 2

(*d*) Distinguish between transaction exposure and translation exposure. 5

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

(*a*) (*i*) What do you understand by a futures contract ?

(*ii*) Explain the concept of leading and lagging.

(*iii*) An American company buys two pound futures contract (each contract implies £ 62500) on Monday to cover exchange losses arising on imports denominated in English pounds to be paid after two months. Information relating to the price of the contract for the next four days is given below :

The purchase price is \$ 1.78 for £62,500. At the close of trading on Monday, the futures price has fallen to \$ 1.77. At Tuesday close, the price rises to \$ 1.80. At Wednesday close, the price falls to \$ 1.785. It is given that the initial margin is \$ 7000 and the maintenance margin is \$ 5000. In this given situation, you are required to demonstrate the marking-to-market process.

3 + 4 + 3

(b) (i) A U.S distributor purchases goods from France worth FF 5 crores, the payment for which will be due in three months. The following data is available :

Spot rate - \$ 0.118850/FF
3-month forward rate - \$ 0.118140/FF
Interest rate per annum is as follows :

	Deposit rate	Lending rate
US	9%	11%
France	8·5%	10%

On the basis of the above, you are required to determine the cash outflow as a result of forward market hedging and money market hedging.

(*ii*) Explain the arrangement of 'parallel loans' used to hedge transaction exposure. 5 + 5

[*Internal Assessment* : 10 Marks]
