

**M.Com. 2nd Semester Examination, 2011**

**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*

**UNIT – I**

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

- (a) What are the common features of a democratic political system ? Also mention the major indicators of political rights and civil liberties.

( Turn Over )

- (b) How does the international business occur through (i) Tourism and Transportation, and (ii) Performance of services ?
- (c) Distinguish between Foreign Direct Investment and Portfolio Investment. Write a brief note on both of them.
- (d) What is Special Drawing Right (SDR) ? Why is it called 'Paper Gold' ? Write a brief note on SDR.

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

- (a) Draw the basic structure of the Balance of Payment of a country and then describe all its components in detail. 10
- (b) What type of information on economic environment is essential for establishing business in a foreign country ? How is the economic status of a country measured for international comparison ? What is the World Bank classification of economies on the basis of GNP of the countries ? 4 + 3 + 3

UNIT – II

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

(a) What is triangular arbitrage ? What is the condition that will give rise to triangular arbitrage opportunity ? Explain with the help of an example. 5

(b) Matching of cash flows is a popular method for hedging transaction exposure. In this context, discuss the technique. 5

(c) It is mentioned that the current spot rate is \$ 1.95/£ and the three month forward rate is \$ 1.90/£. On the basis of your analysis, you are confident that in three months' time, the dollar will appreciate against the pound and the spot rate then will be \$ 1.92/£. Assume that you would like to buy or sell £ 50,000.

(i) What actions will you take to speculate in the forward market ? What will be the amount of profit that you will earn if your estimate proves to be true ?

(ii) Suppose that your estimate goes wrong and the spot rate after three months is \$ 1.85, what will be your profit or loss ?

5

(d) (i) What is translation exposure ?

(ii) Priya Ltd., an Indian-based company, gives the following information to you :

In 3 months, it will require Rs. 500000 to pay in currency *X* to company *A*. In the same time period, it will also require Rs. 250000 to pay in currency *Y* to company *B*. It also expects to receive Rs. 750000 in three months from company *C* after converting the receivables to be obtained in currency *Z*.

It is given that :

(I) Currencies *X* and *Z* are positively related.

(II) Currency *Y* is negatively related to both *X* and *Z*.

(III) Currency *X* depreciates against the Indian rupee.

In the above situation, you are required to show the effect on the cash flow of the company.  $2\frac{1}{2} + 2\frac{1}{2}$

4. Answer any *one* of the following :  $10 \times 1$

(a) (i) An Indian company, XYZ, has imported a turbine machine worth \$100000 from specialist inc., a US-based firm. As per the agreement between them, the amount is payable after 6 months. Since, the importer fears depreciation of the rupee against the dollar, it wants to hedge its payables.

The following data is available to the company :

Interest rates in India : deposit rate - 7% p.a  
and lending rate - 10% p.a

Interest rates in USA : deposit rate - 6% p.a  
and lending rate - 8% p.a

The spot exchange rate is Rs. 45/\$, whereas the six-month forward rate is Rs. 47/\$.

Two options are available to the company : forward market hedging or money market hedging. As a consultant, you are asked to suggest the better option to the company. (Show detailed calculations).

- (ii) Show and explain with the help of a diagram the profit or loss per unit to a call option holder and a call writer. Make necessary assumptions in this regard.

$$5 + \left( 2\frac{1}{2} + 2\frac{1}{2} \right)$$

- (b) (i) What are the points of difference between a forward contract and futures contract ?
- (ii) You are required to calculate the translation gain or loss using current rate method on the basis of the data supplied by an Indian subsidiary to its parent company based in UK.

## Balance Sheet as on 31.3.2011

<i>Liabilities</i>	RS. in million	<i>Assets</i>	Rs. in million
Share capital	1200	Land and building	900
Retained earnings	400	Plant and Machinery	650
Long term-loans	350	Furniture	200
Short-term loan	550	Fixed deposits	100
Current liabilities	450	Stock	300
		Debtor	425
		Cash	375
	2950		2950

Historical rate = Rs. 74/£ and the current rate is - Rs. 77.50/£.

Will the answer be the same under current method ? Explain. 4 + 6

[ *Internal Assessment : 10 Marks* ]