PG/IIS/COM-204/13

M.Com. 2nd Semester Examination, 2013

INTERNATIONAL BUSINESS FINANCE

PAPER—COM-204 (Unit-I & II)

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* from the following questions : 5 × 2

   (*a*) Discuss the nature of international business environment.

   (*b*) What are the advantages a country gets from Multinational Corporations ?

   (*c*) Find out (*i*) balance of current account (*ii*) balance of capital account and (*iii*) amount of foreign exchange reserve as on 31.3.2013, using the following information :

(*I*) Export of Goods \$ 10,000 billion

(*II*) Import of Goods \$ 4,000 billion.

(*III*) Investment income \$ 50 billion

(*IV*) Remittance from abroad (net) \$ 150 billion

(*V*) FDI in flow \$ 7000 billion

(*VI*) FDI outflow \$ 2,000 billion

(*VII*) FIIs' investment in the country \$ 200 billion

(*VIII*) Foreign exchange reserve as on 1.4.12 \$ 80,000 billion.

(*d*) Write a short note on international liquidity with special reference to SDR.

2. Answer any *one* question : 10 × 1

(*a*) What are the socio-cultural issues in International Business Environment ? 10

(*b*) Why was the International Monetary Fund Constituted ? What are the functions of International Monetary Fund ? What are the criticism labelled against it ? 2 + 5 + 3

UNIT – II

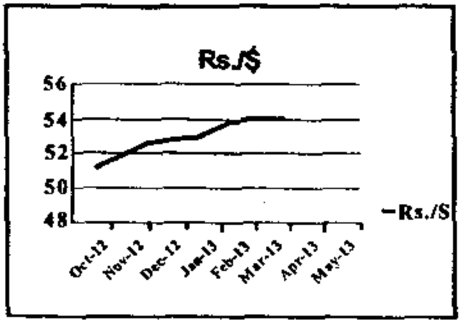
1. Answer any *two* of the following : 5 × 2

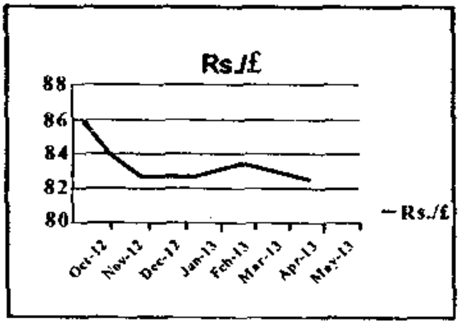
(*a*) Who are the participants in a foreign exchange market ? Write a brief note on each of them ? 5

(*b*) What do you understand by "covered interest arbitrage" ? How does it differ from the "uncovered arbitraging strategy" ? 5

(*c*) With the help of a graph, explain the profit or loss accruing to a call option writer. When is a call option termed as 'in-the-money' ? 4 + 1

(*d*) Write a short note on translation exposure. Consider the case of Healthy Ltd., an Indian-based company which exports its food products to the US and UK. The graphs relating to the exchange rate between the rupee and two foreign currencies is given below.





Note that the figures may differ from reality.

What will be the impact of change in the exchange rate on the receivables from the two countries which are due to be received in June ? 3 + 2

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

(*a*) (*i*) What are the points of difference between a futures and forward contract ?

(*ii*) Glaze Ltd., an Indian company is engaged in the business of manufacturing floor tiles. It is expected to receive \$1,25,000 after 90 days. Because of fluctuation in the exchange rate between the rupee and the dollar. it wants to hedge its receivables. The finance experts in the company have forecasted the following 90-days spot rates together with the probability of occurrence which is given below. 5 + 5

Spot rate (Rs./$)	Probability (%)
51·25	20
52·00	19
52·90	25
54·00	13
56·00	8
56·50	15

If the 90-days forward rate is Rs. 54/$, calculate the estimated cost of hedging.

(*b*) (*i*) Translation gain or loss depends on the method employed. Discuss the statement.

(*ii*) Write a short note on the internal hedging techniques. 6 + 4

[*Internal Assessment* : 10 Marks]