

**2015**

**M. Com.**

**2nd Semester Examination**

**INTERNATIONAL BUSINESS FINANCE**

**PAPER — COM-204**

*Full Marks : 50*

*Time : 2 Hours*

*The figures in the right-hand margin indicate full marks.*

*Candidates are required to give their answers in their own words as far as practicable.*

*Illustrate the answers wherever necessary.*

**Unit—I**

[Marks : 20]

1. Answer any *two* questions from the following : 2×5
- (a) Discuss the nature of international business. 5
- (b) Calculate (i) Balance of Trade, (ii) Current Account Balance, (iii) Capital Account Balance and (iv) Balance of Payment from following information : 1+1+1+2
- I. Reserve in Foreign Exchange (Dr.) Rs. 5,200 crore

*(Turn Over)*

- |   |                  |
|---|------------------|
| II. Import of Goods                               | Rs. 24,000 crore |
| III. Import of Services                           | Rs. 16,000 crore |
| IV. Export of Goods                               | Rs. 20,000 crore |
| V. Export of Services                             | Rs. 8,500 crore  |
| VI. Foreign Institutional Investments (net) (Cr.) | Rs. 2,000 crore  |
| VII. Foreign Direct Investments (net) (Cr.)       | Rs. 2,500 crore  |
| VIII. Grant from IMF (Cr.)                        | Rs. 3,500 crore  |
| IX. Interest income received for foreign deposit  | Rs. 70 crore     |
| X. Foreign Currency Borrowings                    | Rs. 2,100 crore  |
- (c) Critically discuss organization and structure and function of IMF. 2+3
- (d) Write a note on SDR. 5
2. Answer any *one* question from the following : 1×10
- (a) What is Balance of Payment? How disequilibrium in Balance of Payment takes place? 3+7
- (b) Critically examine the advantages and disadvantages of multinational corporations in less developed countries. 10

**Unit—II**

[Marks : 20]

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

- (a) Distinguish between at the money call option and in the money call option. 5
- (b) Distinguish between a forward contract and a futures contract. 5
- (c) Explain the term 'spread'. The following situation is given to you :

<i>Rate of Dollar</i>	<i>Market 1</i>	<i>Market 2</i>
Bid rate	Rs. 64.20	Rs. 62.90
Ask rate	Rs. 63.40	Rs. 63.90

Is it possible to earn profit in the given situation ?

If yes, calculate the percentage. 2+3

- (d) Consistent Ltd., an Indian parent has its subsidiary in the United Kingdom. The balance sheet of its subsidiary is given below :

*Balance Sheet as at 31.3.2015*

(all figures are in millions)

<i>Liabilities</i>	<i>Amt. (£)</i>	<i>Assets</i>	<i>Amt. (£)</i>
Share capital	100	Fixed assets :	
Reserves	20	Land & Building	120
10% Debentures (maturity in 2019)	30	Plant & Machine	40
Debenture interest	3	Investments	27
Bank loan (maturity in October, 2015)	25	Current assets	23
Current liabilities	32		
	210		210

It is given that the historical and current rates are Rs. 98/£ and Rs. 100/£ respectively. Moreover, the value of the reserves equals Rs. 190 crores (on the basis of an average rate).

You are required to calculate the translation gain or loss using the current / non-current method. 4

4. Answer any *one* question from the following : 1×10

(a) (i) Following rates are quoted by three different dealers :

£ / US \$            0.670            Dealer A

F. Fr. / £            8.920            Dealer B

F. Fr. / US \$        6.108            Dealer C

Examine whether any arbitrage gains are possible in this case. 5

- (ii) An option buyer incurs limited losses but earns unlimited gains from the instrument. Explain it with the help of a diagram in the case of a put option which has a strike price of Rs. 105.50 per pound and a premium of Rs. 2 considering spot rate to be in the range of Rs. 102 to Rs. 108/£.

5

- (b) (i) Discuss in brief the International Fisher effect.  
 (ii) Mr. Ankit is interested in making an investment abroad for a period of 3 months. The following situation is given to you :

Interest rates in India and US are 8% and 4% annually. The spot and forward rates are Rs. 62.60 and Rs. 64.10 per dollar respectively.

Using detailed calculations, show which investment will be more beneficial to Mr. Ankit, assuming that he enters into a forward contract. Make necessary assumptions.

- (iii) In the above problem, had Mr. Ankit not entered into a forward contract and the spot rate after 3 months is Rs. 63.80, how much would he get back from his investment abroad? 3+5+2

**[Internal Assessment : 10 Marks]**

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